

The PR Commonwealth, Local Politics, and Their Effect on the Island's Economy

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## **Abstract**

The PR Commonwealth, Local Politics, and Their Effect on the Island's Economy

Natanael Vargas

This thesis focuses on the domestic determinants of Puerto Rico's economic evolution, intending to find what political factors indigenous to Puerto Rico explain its economic trajectory from the 1950s to the 1970s. Specifically, this thesis explores how political calculations for enhanced electoral support characterized internal political dynamics, thereby affecting discussions of the Island's economic situation and ways to ameliorate it. Particular focus is given to critical economic sectors such as industrialism and manufacturing, tourism, agriculture, and local business.

Additionally, this thesis examines how the creation of Puerto Rico's Commonwealth status in 1952 impacted the Island's local policies and local leaders' economic policy choices. This research showed that Puerto Rico's political dynamics were influenced by the Commonwealth status and produced an economic and ideological dependency on industrialism and manufacturing, resulting in the poor management of potentially promising economic sectors. It was also found that the lack of focus and attention toward government economic policies and objectives resulted from a deeply politicized environment in which most public institutions operate on the Island. Consequently, there has been in Puerto Rico a lack of long-term economic planning and convergence between the Island's political leaders rendering the Island incapable of articulation solutions to its fragile economic situation.

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## 1. Introduction

The Island of Puerto Rico is a US territory sharing an economic and political system similar to that of other US states. During the early 1950s, PR sought to leverage its close economic integration with the US and heavily invested in industrialization and manufacturing to achieve rapid economic growth. Subsequently, PR saw impressive GNP growth throughout the 50s to 70s and drastically reduced poverty levels. However, despite the initial economic benefits brought to the Island through industrialization and manufacturing, after the 70s, the Island's over-dependence on these sectors became a source of trouble for further economic growth. While simultaneously, PR's government could not articulate a response to a dwindling industrial and manufacturing sector but decided to double down on the commitment towards a sector showing signs of deterioration.

As Puerto Rico's economic deterioration continued to worsen, and as the Island dealt with bankruptcy, the production of development studies seeking economic alternatives for PR's economic restructuring also increased. There is widespread consensus among leading PR development scholars (Collins et al. 2006; Jenkins et al. 2016; Hexner and MacEwan 2021) that PR should be less economically dependent on manufacturing. This consensus is a function of a shared opinion that the Island's manufacturing sector has become overly big compared to the overall economy.<sup>1</sup> Moreover, the policies encouraging an oversized manufacturing sector seem to have weakened different economic sectors in PR.<sup>2</sup> Equal consensus is reached on the adverse effects of the large manufacturing size on tourism and agriculture.

Tourism, in particular, is believed to be the main economic sector where the focus on manufacturing has reduced its support. It is argued that PR does not have any particular advantage in manufacturing (aside from policy-driven tax incentives). On the contrary, (Hexner and MacEwan 2021) claim that if PR possesses any natural resource-based economy, tourism would be the primary consideration. In other words, the Island's climate, beaches, and ecologically unique sites offer opportunities comparable to those presented by reserves of gas, oil, and other mineral resources in other locations.<sup>3</sup> Similarly, development studies (Harris and Spiegel 2019; Hexner and MacEwan 2021) agree that the large emphasis on manufacturing has also affected the attention given to other economic activities where the Island would have potential advantages: such as agriculture.<sup>4</sup>

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<sup>1</sup> Hexner, J. Tomas. & MacEwan, Arthur. *Puerto Rico: The Economy and Political Status Why are Things So Bad and How Can the Situation Be Improved?*. Development Discussion Papers 2021-03. JDI Executive Programs, 2021. at p.100

<sup>2</sup> Id.

<sup>3</sup> Id. at p.101

<sup>4</sup> Id. at p.13

Development studies on PR agriculture (Harris and Spiegel 2019; Hexner and MacEwan 2021) agree that the Island's focus on the manufacturing sector significantly reduced attention given to the amount of land available for agricultural use.<sup>5</sup> It is often highlighted that PR's substitution of agriculture for industry was not a classic example of Schumpeterian "creative destruction" but rather a product of government policies. One of the central points within the development literature is that this shift not only implicated a drastic curtailment of PR's agricultural sector but caused near-complete destruction of it, accounting for only 1.2 percent of GNP in 2016.<sup>6</sup> The key takeaway from such development studies is PR's need to diversify its economy by giving more importance to sectors with potential for growth to limit the adverse effects of over-dependence on just one large economic sector.<sup>7</sup>

Therefore, if more attention towards these economic sectors was a more appropriate choice, what held the PR government back from doing so? Development scholars' work, such as that of Robert H. Bates (1981), helps pinpoint what dynamics might have led the PR government not to produce a change in its economic policies/trajectory. Bates argues that certain policy commitments can become institutionalized when governments see an opportunity to achieve stability by favoring a specific policy. Bates further states that "people become willing to commit to investment programs. In particular, they become more willing to make fixed and specific investments, the value of which may be contingent upon the maintenance in place of the policy regime. And once they have done so, they then acquire a vested interest in the policy."<sup>8</sup> According to Bates, political systems can yield "a pattern of bias in policymaking" and create "political stability," it is possible to observe how choice patterns become self-reinforcing institutionalizing policy choices.<sup>9</sup> This would help posit that since the creation of the PR Commonwealth was propped up by the success of PR's commitment towards industrialization and manufacturing, it then became difficult for PR leaders to abandon these same policies that helped legitimize the regime. However, a puzzling question remains: if PR's industrialization and manufacturing sector began to dwindle and become a source of economic difficulty after the 70s—possibly losing its appeal as a symbol of legitimacy—why did the PR government continue committing to it while ignoring other promising sectors?

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<sup>5</sup> Harris, Jenileigh, and Emily J. Spiegel. "Food Systems Resilience: Concepts & Policy Approaches." *Center for Agriculture & Food Systems*, 2019. at p.27

<sup>6</sup> Hexner, J. Tomas. & MacEwan, Arthur. at p.103

<sup>7</sup> Collins, Susan M., et al., editors. *The Economy of Puerto Rico: Restoring Growth*. Brookings Institution Press, 2006. at p.585

<sup>8</sup> Bates, Robert H. "Institutions and Economic Performance ." Harvard University , *IMF Conference on Second Generation Reforms*, 1999.

<sup>9</sup> Id.

### 1.1. Puzzle/Research Question

Why has Puerto Rico invested in industrialization and manufacturing when it was evident that investing in tourism, agriculture, and local business would provide a more robust economic development path?

### 1.2. Significance of the Puzzle

Despite Puerto Rico being an incorporated territory of the US and sharing many of the same economic opportunities as other US states, it is one of the poorest and most indebted territories/states within the US. Puerto Rico's poverty rate in 2018 hovered around 43 percent, according to US Census Bureau, meaning PR is twice as poor as Mississippi, the poorest US state with a 19.7 percent poverty rate.<sup>10</sup> Furthermore, PR has only seen a marginal improvement in poverty reduction over the past decades, down from 67.6 percent in 1969 and 58 percent in 1995.<sup>11</sup> Additionally, PR has acquired a governmental debt amounting to \$70 billion, making PR the most indebted territory/state per capita in the US.<sup>12</sup>

Thus, observing how PR has managed critical economic sectors within the context of economic dependency is valuable for understanding PR's economic difficulties and how to limit future production of these same mistakes as PR tries to emerge from its worse financial crisis. More importantly, this study's puzzle/research question also responds to a broader question in the development literature: "why do politicians adopt economic policies that undermine long-term development?" Such an interrogative seeks to pinpoint what political dynamics native to Puerto Rico explain why its government decided to pursue an economic path that would not hold out a positive impact into the future. Therefore, observations of PR's dependent economic development could also present valuable lessons on how economic dependency might affect the internal governance and local economic sectors of other US territories or similar developing nations looking to generate economic growth.

### 1.3. Historical Context

Puerto Rico is an extension of the US economy and almost completely integrated into the US "market, banking system, manufacturing methods, labor, environmental, and juridical

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<sup>10</sup> Glassman, Brian. "A Third of Movers from Puerto Rico to the Mainland United States Relocated to Florida in 2018." *United States Census Bureau*, 26 Sept. 2019.

<sup>11</sup> Segarra Alméstica, Eileen. "The Effect of Income Eligibility Restrictions on Labor Supply: The Case of the Nutritional Assistance Program in Puerto Rico." *University of Puerto Rico*, 2022. at p.27

<sup>12</sup> Austin, Andrew. "Puerto Rico's Public Debts: Accumulation and Restructuring." *Congressional Research Service*, 2021. at p.37

regulations".<sup>13</sup> As a US territorial possession, Puerto Rico has adopted fundamental US institutions which have produced a highly open island economy by global standards, benefiting from the unrestricted mobility of goods, services, funds, and labor to the extensive US market.<sup>14</sup>

From the creation of the Puerto Rico Commonwealth in 1952 to the mid-1980s the Island's developmental strategy only saw minor modifications—mainly variances in its "commitment towards industry and dependency on the US markets and inputs, technology, financing, and ownership."<sup>15</sup> Even though the creation of the Island's planning board and its subsequent planning regulations gave the impression that apt levels of economic planning and organization were being achieved, Puerto Rico suffered an unexpected scarcity of planning towards its local economy.<sup>16</sup> The emphasis PR placed on foreign capital was not because the PR government wished to favor US corporations by sacrificing domestic ones or purposely subject the local economy to foreign influence. Rather, the PR government believed it could address the Island's necessities by relying on US investments and capital, which it believed would produce fast economic growth, employment creation, and augment the quality of life.<sup>17</sup>

As a result, PR's economic trajectory from 1950 to 1970 showed sustained GNP growth rates. Per capita, GNP increased by 5.3 percent at an annual rate in the 1950s and increased to an annual rate of 7.0 in the 1960s.<sup>18</sup> Figure 1 illustrates how impressive Puerto Rico's economic growth was from the '50s until the 70s compared to that of the US. Moreover, Figure 2 illustrates how GDP per worker—a typical measurement of the workforce's production levels—increased from 30 in 1950 to 75 percent in 1980 of the US standard.<sup>19</sup> These growth rates outpaced those in the mainland US, effectively moving PR's economic competitiveness closer to that of the US, while capital deepening and improved efficiency of labor productivity distinguished this period for the PR economy.<sup>20</sup>

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<sup>13</sup> Dietz, James L. *Economic History of Puerto Rico: Institutional Change and Capitalist Development*. Princeton University Press, 1986. at p.240.

<sup>14</sup> Collins, Susan M., et al., editors. at p.1

<sup>15</sup> Dietz, James L. at p.240

<sup>16</sup> Id.

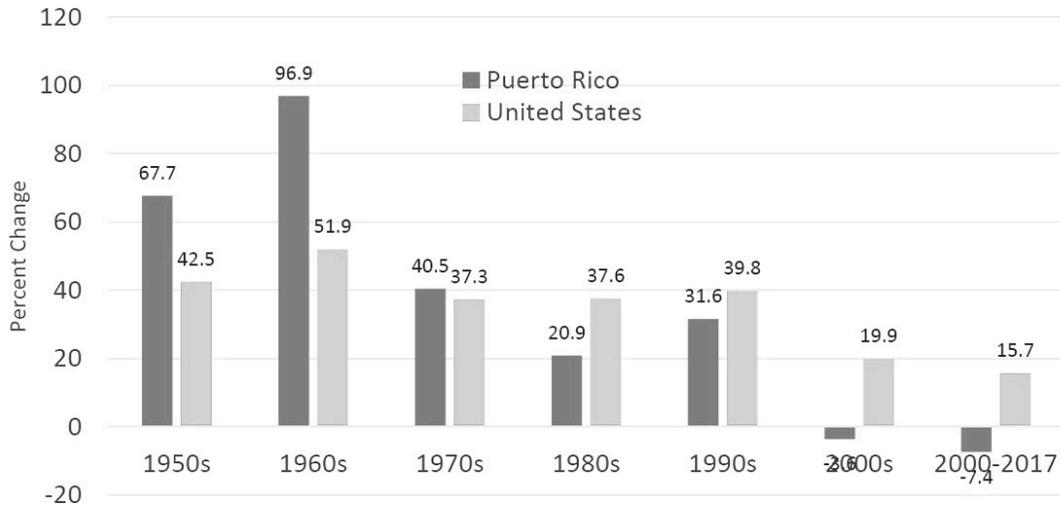
<sup>17</sup> Id. at p.241

<sup>18</sup> Hexner, J. Tomas. & MacEwan, Arthur. at p.29

<sup>19</sup> Collins, Susan M., et al., editors. at p.17

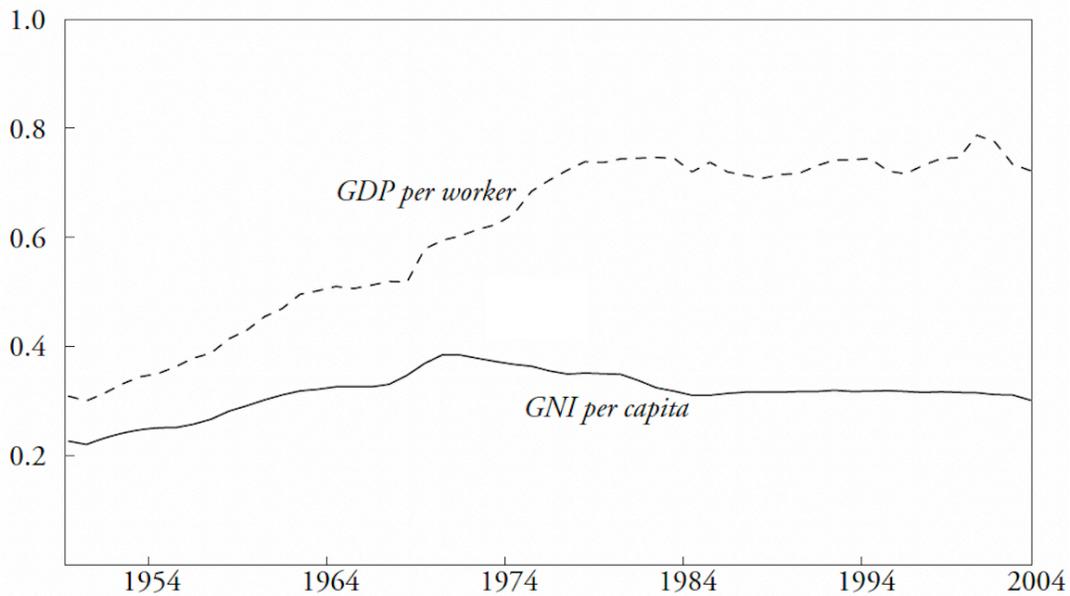
<sup>20</sup> Id. at p.4

Figure 1: Real GNP Growth in Puerto Rico and the United States, 1950 to 2017, Percent Change in the Decade



Source: Hexner, J. Tomas. & MacEwan, Arthur. Puerto Rico: The Economy and Political Status Why are Things So Bad and How Can the Situation Be Improved?. Development Discussion Papers 2021-03. JDI Executive Programs, 2021. at p.5

Figure 2: GDP and GNI, Puerto Rico Relative to the United States, 1950–2004  
Index (United States = 1.0)



Source: Collins, Susan M., et al., editors. The Economy of Puerto Rico: Restoring Growth. Brookings Institution Press, 2006. at p.18

The economic growth of the 1950-1970 period saw a considerable share of PR's inhabitants escape the severe poverty commonplace during the early to mid-1900s. Considerable improvements were achieved toward reducing the economic inequality of the PR population compared to that of the US. According to the Government Development Bank for Puerto Rico, poverty rates in the Island during the mid-40s to early 50s stood at around 86 percent.<sup>21</sup> Inversely, in the US the poverty rate stood at 22 percent.<sup>22</sup> PR's poverty rate during this period responded to the reality that almost half of the 1.1 million inhabitants of the Island were unemployed. Additionally, those that had employment mainly did so in the cultivation of cane sugar, which was seasonal-type employment and low paying. By the mid-1970s poverty rates in PR were reduced to 62 percent, while conversely, poverty on the US stood at 16 percent.<sup>23</sup>

However, after the 70s, the Puerto Rican manufacturing sector became a source of trouble for further economic growth. Large US multinationals dominate PR manufacturing and make use of PR's lucrative tax incentives to maximize profits. Although their presence initially brought the Island economic prosperity, their presence has now resulted in two problematic issues. First, the funds they generate do not necessarily have to be re-invested in Puerto Rico because such funds can be utilized at any other destination as long as it is not in the US.<sup>24</sup> Second, the revenue accumulated by enterprises established outside PR (including subsidiaries of US-based) accounts for why there is a significant GDP and GNP gap in PR.<sup>25</sup> The implication of these discussions on manufacturing highlights PR's evident dependency on the manufacturing sector and the dependency, more generally, of the entire island economy. The government's excessive focus on manufacturing highlights PR's dependent nature; and displays PR's negligence in generating the foundations for financial development—"local businesses, skilled labor, and solid long-term infrastructure"—leading toward economic stability and continued financial expansion.<sup>26</sup> It seems that PR's economic dependence on the US misguided its approach toward the economy by favoring an economic activity largely beneficial to US corporate interests rather than the local economy. The pressures of colonialism and dependency led PR to adopt an economic model for rapid growth that was highly dependent on foreign investment. Through their comprehensive support of manufacturing, the Puerto Rico government and policymakers effectively sustain a sector that has a relatively negligible effect on the Island's domestic economic performance. To illustrate, Figure 3 shows the extent of PR's enormous economic dependence on the manufacturing sector, where manufacturing accounted for almost half of PR's total GDP.

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<sup>21</sup> Banco Gubernamental de Fomento para Puerto Rico. *1940: Los Años Formativos*. 10 Dec. 2015.

<sup>22</sup> Stern, Mark J. "Poverty and the Life-Cycle, 1940-1960." *Journal of Social History*, vol. 24, no. 3, 1991. at p.526

<sup>23</sup> *Id.* at p.20

<sup>24</sup> Hexner, J. Tomas. & MacEwan, Arthur. at p.41

<sup>25</sup> *Id.*

<sup>26</sup> *Id.* at p.42

Figure 3: *Distribution of GDP and Employment, by Industry, Puerto Rico, 2003*

Percent

<i>Industry</i>	<i>GDP</i>	<i>Employment</i>
Manufacturing	42.1	11
Finance, insurance, and real estate	17.1	4
Trade	11.6	21
Services	9.9	28
Government	9.6	21
Transportation and other public utilities	6.9	5
Construction and mining	2.4	7
Agriculture	0.3	2

Source: Collins, Susan M., et al., editors. *The Economy of Puerto Rico: Restoring Growth*. Brookings Institution Press, 2006. at p.163

After the early 1970s, PR had fallen behind, and its productivity slowed sharply.<sup>27</sup> Figure 4 helps us appreciate this decline by presenting PR's GNP from 1970 to 2010. Although the oil crisis of the 70s aggravated PR's economic situation and furthered the decline of PR's manufacturing sector, domestic factors also had a pronounced impact on the economy's health and recovery efforts—or lack thereof. PR's poor economic performance after the 1970s is mainly attributed to the Island's failure in wealth expansion to sustain the initial pace of capital deepening.<sup>28</sup> More specifically, PR's competitiveness began to dwindle due to the cancellation of extremely lucrative tax incentives (section 936 tax benefits), the increase in other nations' access to the US market, and the propping up of other tax haven locations, implying that PR was to lose its competitive edge as a manufacturing hub within the international economy.<sup>29</sup> As a result, not only did the Island's industrialization program (coined Operation Bootstrap) run out of steam after 1970, but the program was unsuccessful in generating robust linkages with domestic supplying corporations.<sup>30</sup> Therefore, PR did not develop an extensive network of vibrant domestic business people kin to the ones that materialized in the economies of East Asia, and the knowledge transfer process from foreign to domestic corporations seemed to be less pronounced in Puerto Rico.<sup>31</sup> This economic slowdown was a clear signal that PR's economic strategy based on heavy dependence on external capital (i.e. US multinational companies) would not guarantee sustainable levels of economic growth or economic stability.

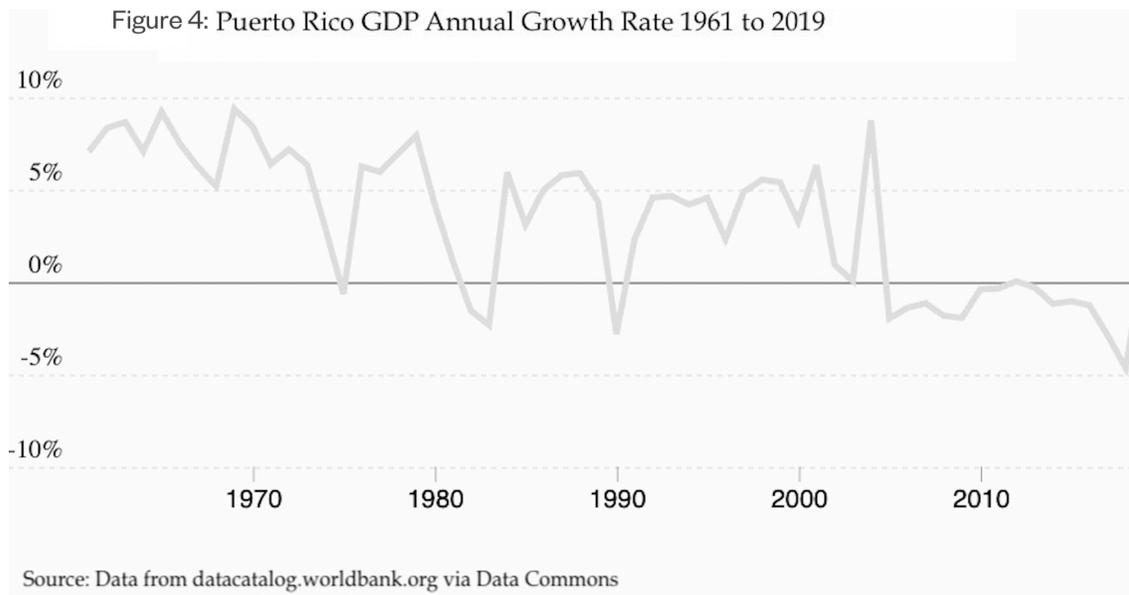
<sup>27</sup> Collins, Susan M., et al., editors. at p.30

<sup>28</sup> Id. at p.30

<sup>29</sup> Id. at 571

<sup>30</sup> Id. at 572

<sup>31</sup> Id.



Although PR's economy has been officially in a state of crisis for the past 15 years, it appears that national political dynamics remained centered on the Island's dependence on manufacturing and industrialization, eclipsing pressing economic concerns. In what follows, I argue that PR's internal political dynamics marked by the ideological commitment towards industrialization leveraged sentiments of modernization and culture preservation to construct politics and build enhanced electoral support. Despite manufacturing being the central driver for rapid industrialization and economic growth through the 50s-70s, it appears PR's successive governments were unable to adapt to changing economic situations due to over-dependence and ideological commitment to industry. The Island's emphasis on manufacturing seems to have caused the undervaluation of different economic sectors in which PR would have a competitive advantage.<sup>32</sup> Thus, Puerto Rican politics and its emphasis on industry from the 50s to the 70s might have rendered the Island incapable of properly articulating what solutions and adjustments are needed to restore economic growth.

#### 1.4. Analytical Goal

The Puerto Rican economy has shown clear signals of deterioration since the 1970s, and successive governments have primarily ignored promising economic sectors and activities. My thesis focuses on domestic determinants of Puerto Rico's economic evolution and aims to find what political factors indigenous to the Island explain this economic trajectory from the 1950s-1970s.

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<sup>32</sup> Id.

## 1.5. Argument

My thesis argues that the Island's internal political dynamics characterized by political calculations for enhanced electoral support have smothered discussions of the Island's economic situation and of ways to ameliorate it—such as increased attention towards initiatives strengthening Puerto Rican tourism, agriculture, local business, and entrepreneurs. I argue that PR's lack of focus on the economy and lack of continuity towards government economic policies is a product of the deeply politicized climate affecting the functioning of many public institutions in PR.<sup>33</sup> I argue that this “over-politicized” environment has ultimately led to a lack of long-term economic planning and convergence between the Island's political leaders, i.e., a shared vision for the Island's future. As a result, policies are frequently devised and enforced to seek political advancement, regardless of their suitability or appropriateness, which implies that many economic policies have been misguided or had the wrong priorities.<sup>34</sup>

My thesis argues that the ideological commitment towards industrialization alongside sentiments of modernization and culture preservation have been leveraged by PR's local political class to enhance their political support. Simply put, it is not that the Island's industrialist project was unimportant; it is that over-emphasis on industry and economic incentives hampers the Island's economic recovery and development. The arguments and discussions proposed here on PR's internal political dynamics address how internal governance was shaped by the PR-US colonial relationship and the economic opportunities it brought forward. A better understanding of the PR case and its politics is valuable in terms of examining how economic dependency shapes a nation's political development as well as the possible limitations stemming from such dependence. In particular, PR's dependent economic development could present valuable lessons on how economic dependency might affect the internal governance and local economic sectors of other US territories or developing nations looking to achieve higher economic growth.

## 2. Historical Background

**Commonwealth-** The United States Congress passed in 1950 Public Law 600, which gave way to the drafting of a constitution and created a republican type of government in Puerto Rico.<sup>35</sup> The Island then held a general vote by the electorate on March 1952, where 81.9 percent of the Island's electorate approved the new Commonwealth or Free Associated State status.<sup>36</sup> By July 3, 1952, the newly created constitution received the US Congress's approval, and the

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<sup>33</sup> Id. at p.214

<sup>34</sup> Id.

<sup>35</sup> Duany, Jorge. Puerto Rico : What Everyone Needs to Know. Oxford University Press 2017. at p.73

<sup>36</sup> Id.

Commonwealth status of Puerto was formally announced on July 25, 1952.<sup>37</sup> Commonwealth represented a greater degree of political autonomy for the Island, allowing PR's electorate to elect its own government as well as power over the passing of laws.<sup>38</sup> More crucially, as Duany (2017) explains, The elected governor of Puerto Rico would have the power to designate cabinet members and crucial constituents of the executive branch; its legislature decides the Island's budget, and the court system can make revisions to the penal and civil laws.<sup>39</sup> The PR government would retain these powers without the interference of the US Congress as long as the PR's locally enacted policies do not constitute a contradiction toward the US Constitution, US regulations, and laws.<sup>40</sup>

In terms of citizen rules, the enactment of the Commonwealth did not alter PR's rights for US citizenship. The US had formally granted US citizenship to anyone born in PR on or after April 25, 1898, with the passing of the 1917 Jones-Shafroth Act.<sup>41</sup> Following the 1917 Act, a Senate and a Bill of Rights were formally established. Despite this, the US Congress and President continued to have veto power over laws pertaining to Puerto Rico. The enactment of the PR Commonwealth allowed PR to draft a constitution but did not alter the Island's territorial status or its citizenship rights.<sup>42</sup> Moreover, in terms of immigration, due to the Island being an unincorporated territory of the US, the federal government retains authority over the entry and exit of PR's territorial boundaries. Under the Commonwealth arrangement, visitors must abide by the same regulations and immigration rights they would while visiting another location within the US. Regarding immigration, individuals who travel departing from any location within the US to PR are not considered as leaving the US as long as travelers go directly from one state to PR.<sup>43</sup>

While PR Commonwealth meant more autonomy for the Island in local affairs like elections, economic development, tax collection, education, housing, health, language, and culture. The US Congress, however, maintained control over state affairs such as immigration, citizenship laws, defense, customs, currency, communication, transportation, diplomacy, and foreign trade.<sup>44</sup> Regardless of the Commonwealth's implications for expanded control over local matters, the Commonwealth status did not significantly change Puerto Ricos' longstanding political and economic dependency on the US. Duany (2017) explains that the relationship between PR and

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<sup>37</sup> Id.

<sup>38</sup> Id. at p.74

<sup>39</sup> Id. at p.73

<sup>40</sup> Id.

<sup>41</sup> Whiting, Elizabeth. "Puerto Rico Debt Restructuring: Origins of a Constitutional and Humanitarian Crisis." *University of Miami Inter-American Law Review*, vol. 50, no.1, Winter/Spring 2019. at p.242

<sup>42</sup> Duany, Jorge. *Puerto Rico : What Everyone Needs to Know*. at p.74

<sup>43</sup> Departamento del Estado . *Guía Para Visitantes*, Estado Libre Asociado De Puerto Rico. at p.3

<sup>44</sup> Duany, Jorge. *Puerto Rico: What Everyone Needs to Know*. at p.74

the US remained fundamentally unchanged because "all of the regulations and articles of the federal laws that ruled relations between Puerto Rico and the United States since the 1898 Treaty of Paris remained intact." Thereby implying that such laws still applied to Puerto Ricans regardless of their approval and that the subordinate citizen status of the Island's inhabitants also remained under Commonwealth.<sup>45</sup>

According to Duany (2017), subordinate citizen status refers to the fact that "Puerto Ricans on the Island do not enjoy all the rights and freedoms as US citizens in the mainland." A central concern with the PR Commonwealth is that the US has implemented two contradictory policies in PR: one of exclusion (maintaining the colonial regime) and another of integration (US citizenship and extension of federal programs to subsidize the local government population).<sup>46</sup> For instance, PR residents cannot vote for the president of the US, yet they are bound to follow his or her orders like any other US citizen. Because PR residents do not pay federal taxes, they have no voting representation in the US Congress. However, PR residents qualify for most federally funded programs, albeit to a lesser degree than the fifty states, like nutritional assistance, unemployment benefits, and welfare. Precisely these contradictory elements are at the center of arguments stating that Commonwealth status is a partial democracy based on the collective subordination of Puerto Ricans to the US.<sup>47</sup>

Moreover, Commonwealth status meant that the Island persisted in being an "incorporated territory that belonged but was not part of the US."<sup>48</sup> Meaning that both the US president and Congress could individually decide what policy Puerto Rico would be subject to regarding international relations, defense, foreign trade, and investment. From an economic perspective, the fact that Congress or the president could selectively apply federal regulations on the Island indicated that special treatment or "privileges" could be given or withdrawn at their discretion. Despite the US government and supporters of the Commonwealth having sustained that the Island exercised its right to self-determination, the essence of the PR-US arrangement has been debated since its beginning.<sup>49</sup> Furthermore, with time, especially more recently, the US government has progressively debilitated the Island's autonomy over its internal affairs due to PR's financial crisis. Thus, the political and economic foundation of the Commonwealth status is heavily under question.<sup>50</sup>

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<sup>45</sup> Id.

<sup>46</sup> Meléndez, Edgardo. "The Politics of Puerto Rico's Plebiscite." *Caribbean Studies*, vol. 24, no. 3/4, 1991. at p.118

<sup>47</sup> Duany, Jorge. *Puerto Rico: What Everyone Needs to Know*. at p.77

<sup>48</sup> Meléndez, Edgardo. at p.118

<sup>49</sup> Id. at p.75

<sup>50</sup> Id.

**Political Parties-** Three principal political parties vie for power over the Island government: the Popular Democratic Party (PDP), the New Progressive Party (NPP), and the Puerto Rican Independence Party (PIP). The PDP and the NPP, PR's two main parties, have rotated their control over the state eight times between 1968 and 2020.<sup>51</sup>

**PDP** - The creation of the PR Commonwealth was done under the leadership of the PDP party, thereby legitimizing their power over local affairs for the leading sectors of the PDP. The PDP-sponsored Industrial Incentives Act of 1947—also referred to as Operation Bootstrap—and the creation of the 1952 Commonwealth signaled the PDP's decisive desertion of its "populist" agenda of 1940 and its support for the Island's sovereignty. The PDP has thus asserted that PR industrialization by way of Operation Bootstrap and Commonwealth status "are two sides of the same coin and constitute the foundation for the Island's economic and political development."<sup>52</sup>

The PDP has followed two objectives to guarantee the reproduction of Commonwealth since the 1950s: to seek the Commonwealth's "culmination" as a "permanent" status and to acquire more significant levels of domestic control over internal matters.<sup>53</sup> In an attempt to obtain support for the Commonwealth's Constitution from statehood and independence advocates, the PDP presented Commonwealth in 1952 as a transitory political status between these two options. However according to the PDP, "the 'culmination' of Commonwealth as a permanent status would close the door to both statehood and independence," and would facilitate getting more autonomy for Commonwealth. Edgardo Meléndez (1991) argues that the reason why the PDP needs more autonomy for Commonwealth to adequately govern the economy and bolster its political legitimacy within PR. But all the attempts by the PDP to achieve these objectives have been rejected by the United States. The PDP's program since the 1950's has centered on seeking more economic and political reforms for the Commonwealth. Nonetheless, the economic instability of the early-1970's and mid 2000's, plus the PDP's inability to obtain more internal autonomy for Commonwealth have furthered the party's political decadence for the past few decades.<sup>54</sup>

**NPP-** The pro-statehood New Progressive Party demands a "sovereign state", with "creole statehood" (Spanish language and a favorable economic transition) and full

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<sup>51</sup> Duany, Jorge. Puerto Rico: What Everyone Needs to Know. at p.76

<sup>52</sup> Meléndez, Edgardo. "The Politics of Puerto Rico's Plebiscite." *Caribbean Studies*, vol. 24, no. 3/4, 1991. at p.128

<sup>53</sup> Id.

<sup>54</sup> Id.

equality in the American union.<sup>55</sup> The NPP presents "statehood as equality" by trying to describe the socio-economic bond between Puerto Ricans and the United States.<sup>56</sup> Their pro-statehood ideology argues that under statehood Puerto Rico will have sovereignty for local affairs, including matters of language and culture. While also arguing that achieving statehood will offer economic security to Puerto Ricans by guaranteeing the increased benefits of the American welfare state. This notion of "statehood as equality" also attempts to legitimate the Puerto Rican statehood before the leading sectors of the United States: "it is presented as a demand for equality from the second-class citizens of the American colony of Puerto Rico."<sup>57</sup>

**PIP-** The Puerto Rican Independence Party, formed in 1946, is the most important electoralist pro-independence party in the postwar period.<sup>58</sup> The PIP represents the electoralist road to independence, rejecting armed struggle and seeking to achieve independence through mass electoral support. PIP politics have been characterized by what can be called the "patriotic politics dilemma": the struggle against a regime which is recognized as illegitimate but through the structures of the regime itself, through the electoral process.<sup>59</sup> This dilemma has characterized PIP politics since its foundation. And after the 70's the PIP has de-radicalized its program to present itself as an acceptable alternative in case the United States grants independence to Puerto Rico. The PIP was formed by the independence faction that was expelled from the PDP in 1945; this event marked the definitive shift in the PDP towards autonomy and Commonwealth.<sup>60</sup> Following this, the PIP embodied the independence sector of the Puerto Rican aristocracy, coming primarily from the working class and business people.<sup>61</sup>

**Economic Growth-** PR's economy is considered a regional extension of the US economy, and the Island has been fully incorporated into the US economy.<sup>62</sup> As such, economic growth in PR can be evaluated by comparing PR's economy to that of US states. Specifically through measurements of GNP, unemployment rate, labor force participation rate, investment rate, poverty level, and levels of economic inequality.

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<sup>55</sup> Id. at p.127

<sup>56</sup> Id. at p.134

<sup>57</sup> Id.

<sup>58</sup> Id. at p.139

<sup>59</sup> Id. at p.140

<sup>60</sup> Id.

<sup>61</sup> Id.

<sup>62</sup> Negrón-Muntaner, Frances, and Ramón Grosfoguel at p.82

**Governance-** Is "the process of decision-making and the process by which decisions are implemented (or not implemented). Governance in this context can apply to corporate, international, national, or local governance as well as the interactions between other sectors of society."<sup>63</sup>

### 3. Literature Review

#### 3.1. The Development Perspective

Due to PR's economic situation worsening after the 70s and its eventual bankruptcy, there has been increased interest among development scholars in what economic alternatives are available for PR to reconstruct itself. There is widespread consensus among leading development scholars focused on PR (Collins et al. 2006; Jenkins et al. 2016; Hexner and MacEwan 2021) that manufacturing on the Island can still play a part in PR's economy but not as the primary catalyst for financial growth.<sup>64</sup> The underpinning argument for less economic dependence on manufacturing is that PR does not possess any unique advantages in that sector. The circumstances that helped make the 50s and 60s so prosperous have disappeared, while different international locations have significantly lower salaries and nearly equal access to the US market.<sup>65</sup> There is also widespread consensus (Collins et al. 2006; Jenkins et al. 2016; Hexner and MacEwan 2021) that a greater economically diversified approach to economic expansion policies would presumably produce more beneficial results. By greater economically diversified approach, what is generally alluded to is that PR should invest more heavily in underdeveloped sectors where the Island has some competitive advantage and opportunity for growth.

Jenkins et al. (2016) argue that PR's use of financial incentives has achieved little in generating development-based manufacturing in PR, and a country's actual economic advantages are not simply changed with such incentives. Therefore the construction of an economy mainly driven by financial incentives is flawed, expensive, and ultimately a highly restricted route toward achieving economic advancement.<sup>66</sup> Jenkins et al. (2016) further state that in the case of PR, such effects are even worse since the emphasis on financial incentive-driven manufacturing has reduced the government's awareness and support for economic sectors where PR possesses actual advantages— especially tourism.<sup>67</sup> Figures for 2016 indicate that PR tourism accounted

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<sup>63</sup> United Nations Economic and Social Commission for Asia and the Pacific. *What Is Good Governance?*, 2009, [www.unescap.org/sites/default/d8files/knowledge-products/good-governance.pdf](http://www.unescap.org/sites/default/d8files/knowledge-products/good-governance.pdf)

<sup>64</sup> Hexner, J. Tomas. & MacEwan, Arthur. at p.112

<sup>65</sup> Jenkins, Glenn P., et al. *Puerto Rico: Insights into Economic Development Policy, Volume V: Action from San Juan*. Development Discussion Papers 2016-15, JDI Executive Programs, 2016. at p.13

<sup>66</sup> Id.

<sup>67</sup> Id. p.14

for 8 percent of GDP while manufacturing accounted for close to half of all of GDP at 47.3 percent.<sup>68</sup> PR offers excellent tourism development prospects with its climate, beachfront, beautiful natural surroundings, unique culture, and closeness to US city centers; however, PR has been widely critiqued for continually dragging behind its Caribbean counterparts and other international destinations.<sup>69</sup> Moreover, although tourism's likely benefits have been previously neglected, the literature implies that tourism still has an untapped potential. Therefore, development scholars believe that tourism industry expansion can significantly contribute to PR's economic growth.<sup>70</sup>

Jenkins et al. (2016) argue, for instance, that PR is a very suitable vacation location for possibly 50 percent of the US inhabitants because it is nearer and has better accessibility in comparison to alternative Caribbean destinations, Central America, and, more evidently, the Hawaiian Islands. However, potential US visitors lack awareness of PR's appeals for tourism, which implies that there is a necessity for increased governmental investments to convert the possible market needs into real demand. Jenkins et al. (2016) argue that, at present, it is a perfect moment to develop PR tourism further because "profits can be attained fast through quick expansion that can be accomplished without considerable quantities of investment." Tourism facilities in PR are far from full capacity; it is estimated that the average hotel occupancy rate in 2016 was 70 percent.<sup>71</sup> PR's occupancy rates are less than those for various US metropolises. For instance, Orlando, Florida, kept 77 percent occupancy in 2015, Miami kept 78 percent, New York City kept occupancy rates of 89 percent and Boston at 82 percent. Additionally, hotels account for only one type of vacant traveler accommodation. PR's enduring recession through the 2010s provoked many Puerto Ricans to leave the Island, causing a ten percent decline in the population in a decade, thereby increasing the vacancy of numerous residences, houses, and condos.<sup>72</sup> Consequently, real estate pricing in PR has drastically decreased. However, such facilities' availability and low cost present the opportunity to repurpose them for tourism. This type of facility would also directly impact the local economy by strengthening the real estate sector and augmenting tourist expenditures in areas not predominantly dominated by large hotels, thereby helping lay the foundation for a surge in private activity<sup>73</sup>

Similar to tourism, agriculture is also believed to be a sector in which PR would have a natural advantage. Although agriculture's contributions would be less than that of tourism, it is believed there are ample economic opportunities in the sector mainly because it is considered a highly

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<sup>68</sup> Bond, Craig A., et al. *Challenges and Opportunities for the Puerto Rico Economy: A Review of Evidence and Options Following Hurricanes Irma and Maria in 2017*. RAND Corporation, 2020. at p.24

<sup>69</sup> Jenkins, Glenn P., et al., at p.6

<sup>70</sup> Id.

<sup>71</sup> Id.

<sup>72</sup> Id.

<sup>73</sup> Id. at p.9

underdeveloped sector within PR.<sup>74</sup> For example, World Bank data for 2016 suggested that manufacturing represented roughly 47.3 percent of GDP while agriculture only accounted for 0.8 percent.<sup>75</sup> At the same time, overall employment in the sector accounted for only 1.4 percent of employment in Puerto Rico. Additionally, PR's small agriculture sector has meant that the Island relies on imports for roughly 85 percent of all its food.<sup>76</sup> As a result, the Development literature on PR agriculture (Gould et al. 2017; Harris and Spiegel 2019; Hexner and MacEwan 2021) agrees that augmenting agri-food production, forestry goods, and offerings produced on the Island's soil can help promote financial stabilization and facilitate access to high-quality foodstuff while limiting the threat associated with rising global temperatures and lack of access to food resources.<sup>77</sup>

Moreover, Gould et al. (2017) further argue that PR has developed a lengthy record of agrarian practices specializing in the tropics, environmental scientific work, and expertise in advanced methods for developing lands and farming. This means that PR could build upon its capacity to become a leader in showcasing how to augment security around food production while preserving an equilibrium of production in farming and silviculture, preservation, and city, private, and corporate usages of limited geography.<sup>78</sup> There is immense economic potential in PR agriculture and forestry practices because the Island has acquired more than nine decades of outstanding scientific work in equatorial farming and forest-related techniques, while such knowledge is already being used internationally with a great deal of acclaim.<sup>79</sup> Gould et al. (2017) also highlight that the farming and forestry product potential in PR is presently fairly underdeveloped. According to them, nearly a fourth of Puerto Rico is characterized as suitable for mechanized and non-mechanized agriculture, while calculations for 2017 reveal that close to 28 percent of Puerto Rico is cultivated land. However, considerably less is cultivated as farmland, and a large part is "idle lands," "rangeland brush," or different farming usage.<sup>80</sup> By contrast, Vicente-Chandler (2000) argues how "better utilization of the landscape--modernizing techniques, making usage of the variety of soils and climates to generate diversified agricultural procedures—can significantly improve productivity on the grounds aptly suited for farming."<sup>81</sup> A few fundamental issues pushing PR towards reviving its operational lands sector are the Island's long-standing elevated unemployment figures, problems around access to food, and the ever-

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<sup>74</sup> Hexner, J. Tomas. & MacEwan, Arthur. at p.104

<sup>75</sup> Bond, Craig A., et al. at p. 24

<sup>76</sup> Harris, Jenileigh, and Emily J. Spiegel. at p. 26

<sup>77</sup> Gould, William A., et al. "Land Use, Conservation, Forestry, and Agriculture in Puerto Rico." *US Department of Agriculture*, vol. 8, no. 7, July 2017. at p.13

<sup>78</sup> Id.

<sup>79</sup> Id. at p.16

<sup>80</sup> Id. at p.14

<sup>81</sup> Id.

increasing expenses associated with agricultural importation.<sup>82</sup> However, to ultimately attain the economic benefits of its operating lands, farms, and forests, there must be increased support from the PR government.

Despite the seemingly evident benefits for PR to pursue other economic activities— like tourism and agriculture—the question remains, why has PR continued pursuing economic activities that were not conducive to further economic growth? In answering such an interrogative, the work of Robert H. Bates certainly stands out. Bates (1981) observed through his analysis of African economic development that the interventions adopted by African authoritarian regimes that adversely affected their economies furthered their political authority in the near term.<sup>83</sup> His research noted that when leadership was established in urban centers, it relied on the backing of metropolitan residents to limit the prospect of uprisings that could destroy the government.<sup>84</sup> Accordingly, these leaders produced policies that helped lower food costs, despite such actions negatively impacting rural groups and financial expansion.<sup>85</sup> Bates (1981) is credited with pioneering the usage of collective action theory to policy effects in developing nations. He is also attributed with successfully correlating agrarian practices in African nations specifically to the different pressures of interest groups on politicians. By observing such dynamics, Bates highlights an important interrogative within the economic development literature: "Why do governments seek political gain at the cost of long-term economic performance?".

Moreover, the research on the theory of collective action within the development literature has, in a few instances, questioned why specific nations produce more “welfare-enhancing” policies with great regularity and why other nations do not.<sup>86</sup> Mancur Olson (1982) offers another explanation for why countries pursue beneficial long-term policies and why others do not. Olson (1982) argues that the total quantity of interest groups determines what general effect they could have. A multiplicity of interest groups vying for state influence could counteract their own leveraging power. Nevertheless, the literature tends to indicate otherwise. Generally, in situations where interest groups are strong, regimes have a tendency to address interest group pressures through organizing "logrolls," which satisfy contesting interest groups' demands at the cost of "unorganized interests."<sup>87</sup> For example, Bates (1981) terminates, based on the African cases he

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<sup>82</sup> Id.

<sup>83</sup> Bates, Robert H. “Democracy in Africa: A Very Short History.” *Social Research*, vol. 77, no. 4, 2010. at p.1139

<sup>84</sup> Gourevitch, Peter. “The Role of Politics in Economic Development.” *Annual Review of Political Science*, vol. 11, no. 1, 2008. at p.140

<sup>85</sup> Id.

<sup>86</sup> Keefer, Philip. “What Does Political Economy Tell Us About Economic Development—and Vice Versa?” *Annual Review of Political Science*, vol. 7, no. 1, 2004. at p.251

<sup>87</sup> Id.

analyzed, that each and every social interest group (large farms, metropolitan residents) were content at the cost of "unorganized interests."<sup>88</sup>

Another possible answer, according to Keffer (2004), is that nations could potentially vary in the plurality of well-organized groups with claims negatively affecting development.<sup>89</sup> TFrieden's (1991) work alludes to such a notion, where he examines how various Latin American nations' economic priorities affected their reactions to comparable situations. Both Bates and Frieden's research thoroughly shows how interest groups within developing nations influence policy flows. However, Bates and Frieden's statements are not meant to determine why interest group pressure is more harmful/problematic towards certain nations and not others. Nevertheless, their concluding remarks stating: "that the qualities of the economic activities in which interest groups participate are an important factor of interest group activity" is echoed in later analysis that explores the link between the role of economic interests in a society and economic development.<sup>90</sup>

For instance, Engerman & Sokoloff (2002) and Acemoglu et al. (2002) observed a great degree of variance regarding how much financial power and influence was retained within small numbers of individuals. Various economies, like Latin American ones, depended on capital-intensive extraction of mineral resources or agricultural production reliant on plantation.<sup>91</sup> Engerman & Sokoloff (2002) show that Latin American and Caribbean nations reliant on plantation agriculture or extracting minerals yielded a broad spectrum of ineffective policy outcomes.<sup>92</sup> The authors then argued that such countries like those in Latin America relied on economic activities that inherently centralized capital within small groups of individuals. Furthermore, the authors also stated that in such situations, monetary control could be converted into political influence and that those who acquired political clout had little motivation to generate equal competitive advantages or opportunities for other citizens. In the US, in contrast, especially in states closer to the north, financial activity produced an expanded demand for professional labor; such conditions contrasted dramatically with their Latin American counterparts.<sup>93</sup> Therefore, the central takeaway from the work of Engerman & Sokoloff (2002) and Acemoglu et al. (2002) was that the early concentration of economic power did not generate incentives for an institutional evolution that would facilitate the expansion or flourishing of the economy.<sup>94</sup>

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<sup>88</sup> Id.

<sup>89</sup> Id.

<sup>90</sup> Id. at p.252

<sup>91</sup> Id.

<sup>92</sup> Id. at p.253

<sup>93</sup> Id.

<sup>94</sup> Id.

The works covered here help understand the logic behind recent economic development studies calling for a broader diversification of the PR economy and increased attention towards tourism and agriculture. While additionally, works around development theory present possible explanations for how political actors in PR might have adopted economic policies that are antagonistic towards economic development as a consequence of interest group pressure. However, the works covered here might only partially explain the particular dynamics of the Puerto Rico case. Crucially, the literature differentiates between the impact of interest groups in the Latin America and Caribbean region compared to those in the US, suggesting that development and growth in Latin America were hampered by local elites having control over the colonial state.

However, the case of PR is distinct from some of the Latin American examples because of the dynamics associated with the US inserting itself as a local interest group in Puerto Rico after colonizing the Island. Previous to the acquisition of PR by the US, the Island was dominated by large agricultural operations owned mainly by locals; however, after PR colonization, these agricultural operations were acquired by the US. These dynamics imply that the leading interest group exerting political and economic pressures in PR was that of large American corporations rather than the local elite. Thus, the PR case throws a wrench at such observations because, in PR, economic activities promoted by US interest groups seem to parallel those same dynamics critiqued in the literature as mainly happening in other Latin American countries by local elites. Therefore, the literature covered here better explains why interest groups (American corporate gains) most likely influenced Puerto Rico's early economic policies. It does not, however, go one step further and help answer how those same colonialist pressures kept PR from investing in other promising and potentially lucrative economic sectors.

### 3.2. The Historical Perspective

Authors like Robert Pastor (1984) presents a historical analysis that helps appreciate the importance of the enactment of the PR Commonwealth and its development. Robert Pastor's work offers a historical account analyzing the evolution of the international debate on Puerto Rico's Commonwealth arrangement in the United Nations and other international organizations since the end of WWII.<sup>95</sup> He explains that after WWII, the United Nations Charter promoted decolonization efforts and issued a declaration regarding non-self-governing territories.<sup>96</sup> Following such international pressures for decolonization, the US accepted its own responsibility and included PR in the tally of 74 “non-self-governing territories” gathered by the UN General Assembly during its resolution of December 1946.<sup>97</sup> On 25 July 1952, the PR Constitution came

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<sup>95</sup> Pastor, Robert. “The International Debate on Puerto Rico: The Costs of Being an Agenda-Taker.” *International Organization*, vol. 38, no. 3, 1984. at p.577

<sup>96</sup> Id. at p.577

<sup>97</sup> Id.

into force, creating the "Commonwealth" of Puerto Rico. Assembly recognized in 1953 PR had "achieved a new constitutional status" which meant the people "had exercised their right to self-determination."<sup>98</sup>

However, Pastor explains that although PR was erased from the list, the proclamation of the Commonwealth did not quell the debate on the PR-US political relationship locally or internationally. Jose A. Cabranes (1967) agrees that despite the creation of the Commonwealth of Puerto Rico and the considerable economic prosperity enjoyed by the people of Puerto Rico during the 50s and 60s, the Island's "status issue" remained very much alive. In large part, because advocates of independence and statehood have maintained that the Commonwealth is merely a camouflage for the Island's colonial status.<sup>99</sup> Cabranes explains that the US and PR governments agreed in July 1962 that the time was ripe for considering the possibilities for further development and growth of the PR-US relationship.<sup>100</sup> Consequently, by the beginning of 1964, The United States-Puerto Rico Commission on the Status of Puerto Rico came into being.

Cabranes suggests, however, that the conclusions made by the Commission highlight the difficulties associated with the PR problem where the Commission itself did not espouse any of the status alternatives and significantly foreclosed non of them.<sup>101</sup> At the same time, there is little coherence among PR's political class or among PR society as to what the Island's future relationship with the US should exactly be, resulting in a dead-end where US and PR officials are incapable of effectively communicating and finally resolving the PR-US compact dilemma. Consequently, to further quell the dissatisfaction surrounding the PR-US relation, the US government has been sponsoring a process since 1989 to allow Puerto Ricans to hold a plebiscite to decide their future political status.<sup>102</sup> The plebiscite is supposed to allow PR to choose between the current Commonwealth status, statehood, or independence. And it responds to the need of having a mechanism to guarantee the self-determination of Puerto Ricans.<sup>103</sup>

Regardless, according to author Edgardo Melendez (1991), the plebiscite process itself has often been critiqued as not an effective tool to guarantee the self-determination of Puerto Ricans. For Melendez, the fact that PR does not have significant control over its political status and the plebiscite process shows that the PR-US relationship is still fundamentally colonial. Melendez suggests that the fundamental problem lies in the fact that the metropolis (US) has implemented two contradictory policies in PR: one of exclusion (maintaining the colonial regime) and another

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<sup>98</sup> Id. at p.578

<sup>99</sup> Cabranes, José A. "The Status of Puerto Rico." *The International and Comparative Law Quarterly*, vol. 16, no. 2, 1967. at p.535

<sup>100</sup> Id. at p.535

<sup>101</sup> Id. at p.536

<sup>102</sup> Meléndez, Edgardo. at p.117

<sup>103</sup> Id. at p.117

of integration (US citizenship and extension of federal programs to subsidize the local government population).<sup>104</sup> In turn, these policies have influenced the political programs of the PR parties and have also led to the current political stalemate among the major political tendencies in Puerto Rico —Statehood and Commonwealth. Additionally, Melendez argues that the plebiscite is essentially null or ineffective because the idea of the plebiscite on PR's political status is clearly a US initiative, and US decision-makers have carefully managed the entire process in order to satisfy and guarantee US interests in PR.<sup>105</sup>

The Island has held six plebiscites regarding its political status since 1967. In the most recent (2020) plebiscite 52.52 percent of the voters expressed they favored statehood, while 47.48 percent expressed to be against statehood. This was the first time, however, that the plebiscite process presented voters with a straightforward yes/no option for voting on statehood. Previous plebiscites have usually included multiple options from which to choose from—e.i. maintaining Commonwealth, favoring statehood or independence. This is precisely why many critics of statehood, argued that the 2020 plebiscite (sponsored by the NPP which favors statehood) is simply an electoral gimmick to incentivize voters favoring statehood to go to the ballots. Nevertheless, what is clear about the whole plebiscite process is that the Commonwealth option —despite its changing definitions through different plebiscites— has been clearly losing popular support, down from 60.4 percent of the votes in 1967.<sup>106</sup> Conversely, statehood advocates increased from 39 percent of the total in 1967 to a high of 46.5 percent in 1998 and decreased slightly in 2012.<sup>107</sup> The two majority options —Commonwealth and statehood — are now in an apparent stalemate, with a small minority in favor of independence (between 3 and 5 percent of the electorate since 1993).<sup>108</sup> As of right now, the status plebiscites in Puerto Rico appears to be more of a symbolic process that is often used by governing parties for political leverage and political calculations. It has to be acknowledged that Puerto Rico has never had a status plebiscite ordered by the US Congress, while the median electoral participation in such status votes has usually been approximately ten percent less than in PR's local elections. Meaning, that Congress has never been tied by the plebiscite processes, and "although PR's right to self-determination is a crucial legal idea relevant to the Island's own Commonwealth constitution, such a process is just not recognized as concerns federal lawmaking."<sup>109</sup>

Moreover, Francisco J. Gonzalez Sosa (1995) agrees that the PR-US relationship and the plebiscite process are often times problematic due to the US's vested interests in Puerto Rico.

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<sup>104</sup> Id. at p.118

<sup>105</sup> Id. at p.120

<sup>106</sup> Duany, Jorge. *Puerto Rico: What Everyone Needs to Know.* at p.84

<sup>107</sup> Id.

<sup>108</sup> Id.

<sup>109</sup> Newkirk II, Vann R. "Puerto Rico's Referendum Won't Grant It Statehood." *The Atlantic*, Atlantic Media Company, 13 June 2017.

Gonzalez Sosa further clarifies that since the acquisition of Puerto Rico by the US in 1898, the Island has gained valuable strategic and military importance for the US. During the post-WW2 era, the US Navy Department carried out studies that decisively demonstrated that PR would have significant strategic relevance in the post-conflict period.<sup>110</sup> Therefore, as Gonzales Sosa suggests, the US military and its heads had to be pleased that the political transformations occurring in PR would not risk the military's operations on the Island. As such, Gonzalez Sosa argues that PR's military and strategic importance ultimately shaped PR's current Commonwealth status. According to him, it is important to acknowledge the Commonwealth status "was the product of a compromise that would simultaneously satisfy the diplomatic needs of the US (i.e., at the United Nations, and improve relations with Latin America), the desire of Congress to maintain ultimate control over the island, and the genuine desire for political self-determination and economic improvement that the people of Puerto Rico demanded."<sup>111</sup>

Additionally, this stream of literature seems to view PR's ills through the lens of the creation of the Commonwealth and its implications on the Island. More specifically, this literature mainly implies that PR's economic ills could be addressed by favoring a modification to PR's current Commonwealth status. Thus, it is suggested that PR, to "fix" or adequately address its economic situation, must modify the current Commonwealth status to allow local politicians more power over the island economy. It is implied that PR's economic ills would be lessened through an enhanced Commonwealth, which would entail: "a 'mutually binding bilateral compact' between Puerto Rico and the United States with guaranteed U.S. citizenship for persons born in Puerto Rico; a simultaneous recognition of Puerto Rico's status as a "nation"; the reservation of sovereign powers for the local government, including the power to enter into treaties with other nations and to veto federal laws; and perpetual federal funding, along with a continued exemption from federal income taxes."<sup>112</sup> Proponents of the PDP party have popularized such a view. Moreover, those favoring the continuation of the Commonwealth, but with modifications (the PDP), believe PR's economic situation is the product of the Island's limited decision-making power regarding economic maneuvering.

Although the works covered here are undoubtedly helpful in understanding and appreciating the complex and much-debated history of the PR Commonwealth arrangement, and such analyses can help better understand the Island's internal politics. The literature, however, does not address how PR's internal political dynamics have affected the Island's economic governance from the '50s and onwards. There is virtually no recognition on how the Commonwealth arrangement and the politics built around it have negatively affected PR's economic health. Therefore this thesis aims to bridge this gap and build upon the historical perspective of the PR Commonwealth to

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<sup>110</sup> Gonzalez Sosa, Francisco J. "Origins of the Commonwealth of Puerto Rico in the Context of United States Strategic Interests in the Caribbean (1938-1950)." *Minnesota State University, Mankato*, All Graduate Theses, Dissertations, and Other Capstone Projects, 1995. at p.54

<sup>111</sup> Id. at p.11

<sup>112</sup> Burnett, Christina D. "The Case for Puerto Rican Decolonization." *Orbis*, vol. 45, no. 3, 2001. at p.434

articulate how internal politics have previously hindered the Island's economic governance. Based on the literature, it is pretty clear that Puerto Rican governance is under the tutelage of American interests and power. This is precisely why any alternatives brought forward to ameliorate the Island's debt, and economic crisis must take into consideration the development of the PR-US relationship and the limitations stemming from that arrangement. Regardless, a historical appreciation of how the PR Commonwealth came to be could provide insights into the limitations and opportunities available for the Island under its current Commonwealth arrangement with the US. For instance, one might ask why the PR government has largely mismanaged three crucial economic sectors — tourism, agriculture, and local business — and how this relates to the creation of the PR Commonwealth.

### 3.3. The Legal/Constitutional Perspective

Elizabeth Whiting's work addresses the legal-economic importance of PR's financial crisis and the adaptation process within the setting of PR's problematic status as a territory, as well as the influence of colonialism on the regulations that have ruled and now determine the evolution of PR's debt crisis.<sup>113</sup> Whiting argues that the Island's current financial debt crisis was severely affected by institutional and bankruptcy concerns that arose from PR's problematic territorial legal status.<sup>114</sup> Puerto Rico as a US territory does not have access to the US Bankruptcy Code to restructure its debt, even though the Island's residents are American citizens and the Island is a fully incorporated subregion of the US economy. According to Whiting, the political and legal historical trajectory of PR's arguably inferior territorial status ultimately led to distinctive legal complications that the Island confronts regarding structural financial and humanitarian concerns.<sup>115</sup>

Presently, PR is undergoing its biggest financial crisis post-Great Depression and one of the most significant debt crises in US history.<sup>116</sup> Given the difficulties of the PR situation, many scholars have been concerned with how economic recovery efforts will unfold and what opportunities are available for PR to rebuild and move forward. However, as Whiting suggests, one of the central issues leading to intense disagreement [relating to the PR Commonwealth] continually revolves around "whether Puerto Rico qualifies as a 'state' within the Federal Bankruptcy Code."<sup>117</sup> The main argument here is that because of PR's territorial status, the Island is not authorized to file for traditional bankruptcy under the US Constitution, severely limiting the Island's opportunities for economic restructuring. The main reason for this is PR's legal definition as a non-

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<sup>113</sup> Whiting, Elizabeth. at p.239

<sup>114</sup> Id. at p.238

<sup>115</sup> Id. at p.261

<sup>116</sup> Id. at p.252

<sup>117</sup> Id. at p.255

incorporated territory of the US, meaning that it belongs to the US but is not formally integrated as a State in the American union.

Due to the restrictions imposed by the Federal Bankruptcy Code on state municipalities like towns, cities, and counties, PR's legal definition has been problematic. The immediate implication is that the Bankruptcy Code's Chapter 9 does not apply to Puerto Rico's municipalities due to its status as a territory.. Additionally, the White House, the US Department of the Treasury, and the US Congress have stated that they will not set any precedents for treating unincorporated territories' debt with a Puerto Rican bailout. The danger of a Puerto Rican bailout would be that the US would then also need to address the debt of other largely indebted territories—particularly the District of Columbia. The literature indicates that intentionally limiting Puerto Rico and the District of Columbia from claiming protection under the US Bankruptcy Code might have reflected concerns that those two territories, which are highly indebted, could pass anti-creditor laws.<sup>118</sup> Among the creditors of PR, the majority were mainland US citizens.<sup>119</sup>

David Rezvani (2007) agrees with Whiting on the constitutional dilemma associated with PR's Commonwealth arrangement and presents a critique arguing that US Congress' legal plenary power has not been erased and is still in existence despite PR's constitutional right to self-govern.<sup>120</sup> Rezvani argues that Puerto Rico's right to self-govern and PR's autonomous powers are conventionally entrenched rather than formally entrenched, thus severely undermining PR's fundamental right to self-govern. He suggests that the correct analogies to Puerto Rico are not the many colonies of historical empires but rather other conventionally entrenched federacies such as the historic British dominions as they existed before WWI.<sup>121</sup> Rezvani argues that the status of the British dominions, such as Canada and South Africa, during the end of the 19th and beginning of the 20th centuries were alike in many ways to that of Puerto Rico today. Legal records like the territorial clause in the US Constitution appear to express one view of the US-PR association in the same way as they did for the dominions and the British government; however, with time, it becomes more evident that "informal agreements, principles, and increasing precedents of non-interference over time largely influence such a legal relationship."<sup>122</sup> This is especially true in recent times when the creation of the federal advisory board (PROMESA) supervising the PR government is seen as a clear sign of a violation of PR's constitutional right of non-interference and self-governance.

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<sup>118</sup> Id.

<sup>119</sup> Id.

<sup>120</sup> Rezvani, David A. "The Basis of Puerto Rico's Constitutional Status: Colony, Compact, or Federacy?" *Political Science Quarterly*, vol. 122, no. 1, 2007, at p.125

<sup>121</sup> Id. at p.118

<sup>122</sup> Id. at p.131

The constitutional and legal side of the PR Commonwealth situation is quite complex and is the primary source of heated debates suggesting that PR's colonial nature limits the financial tools available to the PR government. Scholars interested in the constitutionality of the PR Commonwealth are generally concerned about the apparent barriers PR faces as a consequence of its current constitutional arrangement as it tries to emerge from its worst financial crisis. They insist that as a consequence of PR's territorial arrangement, there is virtually no prospect of a long-term solution to the Island's economic situation. Although this is somewhat true, the literature seems to imply that there are no other possible options short of a complete overhaul and re-imagining of the PR-US relationship. This, in my view, is misleading and takes attention away from other initiatives that—although less promising at first sight—might present valuable opportunities for the Island to reconstruct itself. Regardless of the PR Commonwealth's constitutional limitations, the Island does possess ample powers over local affairs. And those same constitutional/legal limitations cannot account for PR's crippling governmental incompetence and poor economic management over the past decades.

Moreover, this stream of literature mainly views PR's economic ills through a perspective favoring PR statehood. One of the points of massive contention within this literature has been PR's limited economic recovery efforts since the Island government has been unable to declare bankruptcy protections. Therefore, the literature sees PR statehood as the most straightforward way of guaranteeing such protections. It is also implied that PR statehood would serve as a mechanism to address the Island's constitutional issues affecting PR's right to self-govern, especially as it relates to PR being able to fully construct its own path to economic development free of interferences. This stream of the literature has been espoused by statehood supporters (NPP) not only as a way to address constitutional and bankruptcy issues but also to increase federal transfers towards PR that would help prop up the economy and help further develop and invest in crucial sectors.

It appears that much of the political debate on the PR Commonwealth has been informed by this stream of literature. However, the literature overlooks the devastating consequences towards the economy associated with the PR Commonwealth and the internal political dynamics formed under that arrangement. Therefore, a more pressing question—which is completely absent within the literature—should be what political factors have contributed towards PR's stagnant economic situation over the past few decades? This thesis aims to answer such an interrogative and posits that irrespective of PR's legal and constitutional limitations the Island's internal politics have ultimately been an impediment towards economic recovery and apt economic governance. Specifically, the Island's use of unique economic incentives afforded by the Commonwealth arrangement, and economic policies aimed at political gain have shadowed pressing economic concerns while hindering objectively managing the PR economy.

### **3.4. The Local Perspective**

Lecours and Vezina's (2017) work accurately explains how Puerto Rico's politics give rise to a peculiar political organization where political parties are mainly characterized by their stance on

varying preferences on PR's relationship with the US than by their ideology or by their economic platforms/policy.<sup>123</sup> More importantly, Lecours and Vezina present the reader with an analysis of how these varying preferences on the PR-US relationship have led toward a political system mainly characterized by Puerto Rican nationalism. The authors agree with other scholars on the influence of colonialism in PR and argue that the idea of decolonization has been a significant force behind PR's internal politics and nationalism. Lecours and Vezina pinpoint one of the primary sources of heated debate currently troubling PR citizens and intellectuals alike. They suggest that in the wake of developments where the US has limited the Island's access to bankruptcy protections by the US Congress, the US's inadequate response to recent natural disasters has revived "sentiments of subjugation to the US" as well as a strong dissatisfaction towards the "Island's current institutional make up."<sup>124</sup>

Amilcar Antonio Barreto (2020) expands further and identifies one of the main distinguishing features of PR nationalism. Barreto suggests that most Puerto Ricans separate cultural nationalism from political nationalism despite this not holding true for (American) federal policymakers.<sup>125</sup> This distinction in PR nationalism rests on the fact that most Puerto Ricans wish to maintain a strong connection with the US, yet at the same time, cannot agree on the Island's future political relationship with the US. Barreto explains that the debate on the PR-US relationship deciding between independence, greater autonomy, or statehood reflects a complex tapestry where politics, economics, and culture intertwine.<sup>126</sup> Interestingly, Puerto Ricans of all political affiliations are principally cultural nationalists.<sup>127</sup> However, Morales Carrion (1983) suggests that Puerto Rican nationalism, with its tenacious manifestations in the cultural arena, is far more muted in politics, where it reveals itself in the guise of autonomism but not separatism.<sup>128</sup> Nevertheless, Duany (2002) reiterates that "cultural nationalism is a profound endeavor to affirm Puerto Rico's unique collective identity in the context of colonialism and persistent political and financial reliance on the US."<sup>129</sup>

Precisely this juxtaposition of cultural nationalism versus political nationalism and how it relates to PR's political relationship with the US has been a significant trend in contemporary Puerto

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<sup>123</sup> Lecours, André, and Valérie Vézina. "The Politics of Nationalism and Status in Puerto Rico." *Canadian Journal of Political Science*, vol. 50, no. 4, 2017. at p.1090

<sup>124</sup> Id.

<sup>125</sup> Barreto, Amílcar Antonio. *The Politics of Language in Puerto Rico: Revisited*. 2nd ed., University Press of Florida, 2020. at p.34

<sup>126</sup> Id. at p.34

<sup>127</sup> Id. at p.43

<sup>128</sup> Morales, Carrión A, and María T. Babín. *Puerto Rico, a Political and Cultural History*. New York: W.W. Norton, 1983. at p.71

<sup>129</sup> Duany, Jorge. *The Puerto Rican Nation on the Move : Identities on the Island & in the United States*. University of North Carolina Press 2002. at p.17

Rican studies (e.g., R. Rivera 2007; Soto-Crespo 2009; Sotomayor 2016). As Arlene Dávila (1997) puts it, cultural nationalism “has historically evolved into the dominant form of nationalism thought, and that provides the framework for contemporary debates”.<sup>130</sup> Yet, authors like Duany (2007) suggest that cultural nationalism can also harmonize with other self-determination alternatives short of independence.<sup>131</sup> But, most scholars agree however that absent direct federal government intervention in cultural matters, citizens weigh economic concerns over cultural considerations.<sup>132</sup> Which begs the question: why then, does the PR government favor constructing local politics around the PR-US relationship and culture, rather than on improved economic platforms/policies toward the Island's recovery efforts?

Ricardo Duchesne (2006) agrees on the distinctiveness of PR's nationalism but offers a more critical perspective. Duchesne views PR as a historical anomaly as a “colony” because of its economic dependence and classification as a developed nation.<sup>133</sup> In Duchesne's view, “Puerto Rico is a political colony, an industrial country and a neo-colony at the same time, which explains why the Island faces a profound identity crisis and why the debate on the PR-US relationship often relates to defining the PR identity.”<sup>134</sup> For Duchesne, there are two historical contraries in PR: one that combines political colonialism and industrialization, and another that combines new-colonial exploitation and development.<sup>135</sup> Duchesne argues that changing PR's status from a "territory" to a "Free Associated State" (Commonwealth) gave way to the sharing of a standard financial system and shared military defense and, more crucially, facilitated PR's unrestricted mobility of goods with the US. Thus, guaranteeing PR many advantages associated with economic integration with the US, but simultaneously unleashing a complex and often contradictory relationship between both nations. For Duchesne, it is clear that the Island can be characterized as a colony simply due to its political relationship and current status; however, if one looks at its per-capital income, then PR is an industrialized nation, yet its dependent economy implies that PR is also a neo-colonial nation.

From the local perspective, the literature clarifies that there is a deep sense of dissatisfaction towards the PR Commonwealth, and this dissatisfaction often is embodied by a peculiar type of Puerto Rican nationalism. Most of the literature is geared towards analyzing how the PR-US relationship debate and nationalism are intertwined and how they characterize PR's politics. It

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<sup>130</sup> Dávila, Arlene M. *Sponsored Identities: Cultural Politics in Puerto Rico*. Philadelphia, Pa: Temple University Press, 1997. at p.11

<sup>131</sup> Duany, Jorge. *Nation and Migration: Rethinking Puerto Rican Identity in a Transnational Context*. 2007. at p.52

<sup>132</sup> Barreto at p.43

<sup>133</sup> Duchesne, Ricardo. “Globalization, the Industrialization of Puerto Rico and the Limits of Dependency Theory.” *Journal Für Entwicklungspolitik: JEP*, vol. 32, 2006. at p.56

<sup>134</sup> Id. at p.56

<sup>135</sup> Id. at p.57

does not, however, go one step further and examine how PR's economic governance might be influenced or affected by these same nationalist driven characteristics often described. Therefore, such literature is largely missing any insights into the presumably close relationship between the Island's nationalist inclined internal politics and its economy. For instance, there are no mentions on how the Commonwealth arrangement—and its related nationalist sentiments— might have been leveraged by local politicians for enhanced support. And, no attention is given to how local politicians might instrumentalize nationalism—and the associated sense of dissatisfaction towards the Commonwealth— in order to take attention away from PR's economic concerns. Thereby posing a detrimental impact on PR's effective economic governance and towards properly developing crucial economic sectors—like tourism, local business, and agriculture. Therefore, my thesis aims to fill in this gap in the literature by presenting an analysis on how PR's internal governance might relate to its economic governance.

### **3.5. Concluding Thoughts**

The works covered here help us understand the logic behind development studies and their recommendations for improving PR's economic situation. While the review of development theory helps uncover some possible explanations for why PR has managed its economy in ways that seem antagonistic toward long-term development. Additionally, some of the works also covered here present a distinct side of the Island's Commonwealth status, and they certainly highlight the complexity behind such an arrangement. However, the literature has given much less attention to how the Island's internal political dynamics itself have possibly impacted the Island's governance and how it has shaped its economic priorities. That is not to say that studies on PR's political trajectory as a Commonwealth territory from a developmental, historical, legal, or local perspective are not helpful. These types of studies can surely inform future political actors and policymakers on what measures and actions could ameliorate the deep dissatisfaction and legal contradictions associated with PR's Commonwealth arrangement with the US. However, scholars have been mainly focused on analyzing the formation of PR's Commonwealth arrangement and studying how its political dilemma came to be while ignoring how internal political dynamics could have affected the Island's economic development. My thesis seeks to fill this gap in the literature by exploring how PR's economic governance and its development efforts under Commonwealth have fallen victim to politically motivated calculations and internal political dynamics.

## **4. Analytical Framework**

### **4.1. Why Historical Institutionalism?**

My study will rely upon the historical institutionalism approach. This theoretical perspective rests on the principal claim that history is of importance and underlines how institutions are

materialized and entrenched in tangible time-related procedures.<sup>136</sup> By analyzing the timing, sequence, and path dependency of events, it shows how institutions are impacted and how political, social, and financial behavior is transformed.<sup>137</sup> This framework is founded on the idea that, over the course of a prolonged period, institutional practices, restraints, and reactions to these direct the formal behaviors that political actors exhibit in the creation of policies.<sup>138</sup> The institutionalist approach underscores the likelihood of multiple results, the essential effect of small events and contingencies, the difficulty of changing the course of events once they have transpired, as well as the possibility of inadequate results. Historically institutionalism posits that institutions are created to advance the interests of strong states rather than to achieve socially advantageous outcomes, thereby generating less-than-optimal or counterproductive results.<sup>139</sup>

Such an approach naturally lends itself to observe how Puerto Rico political institutions formed and how the over-arching emphasis on industrialization came to be. While also presenting an opportunity to observe how history and past trajectories have conditioned PR's governmental/institutional priorities and their effects on PR's economic policy choices. Over the past two decades, historical institutionalism has had great success in helping scholars better understand institutional formation and change.<sup>140</sup> Likewise, this study will utilize various historical institutionalist concepts —e.g., path dependence and critical junctures. Which will serve as powerful explanatory tools to help build and support this study's research question and main arguments.

#### 4.2. A historical institutionalist approach to path dependency

Greener (2005) explains that path dependency is regularly used within the historical institutionalist methodology to explore how institutions can restrain organizational life. Such a concept has been widely used in constructing answers regarding why institutions change less than anticipated. Path dependency suggests that once a nation, area, sociopolitical actor, or movement has begun down a path (of policy or actor behavior), the costs of regression are significantly heightened.<sup>141</sup> It tends to suggest that policymakers function within a sequence of biased prejudgments about their environment while often failing to learn from previous

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<sup>136</sup> Thelen, Kathleen. "Historical Institutionalism in Comparative Politics." *Annual Review of Political Science*, vol. 2, no. 1, Annual Reviews, June 1999. at p. 371

<sup>137</sup> Voeten, Erik. "Making Sense of the Design of International Institutions." *Annual Review of Political Science*, vol. 22, no. 1, Annual Reviews, May 2019. at p.149

<sup>138</sup> Breuning, Marijke and Ishiyama, John T.. "Neoinstitutionalism". *Encyclopedia Britannica*, 28 Oct. 2014, <https://www.britannica.com/topic/neoinstitutionalism>.

<sup>139</sup> Id. at p.149

<sup>140</sup> Thelen, Kathleen. at p. 371

<sup>141</sup> Perrinjaquet, Olivier. "Breaking Path Dependence: Puerto Rico's Biggest Hurdle in Developing a Strong, Indigenous Entrepreneurial and Capitalist Class." *Occasional Papers*, vol. 2, no. 1, 2016. at p.2

experiences, and their decision-making procedures are affected and characterized by cautiousness and wariness.<sup>142</sup> Paul Pierson's (2000) work tells us some of the main issues behind path dependence. Pierson (2000) suggests that distinct "patterns of timing and sequence" have consequences; beginning with comparable circumstances, a broad spectrum of social effects can occur; considerable effects can be caused by somewhat trivial or accidental happenings; and some behavior, after a certain point, is practically inconceivable to change.<sup>143</sup> As a result, "critical moments or junctures" frequently mark political development and shape the fundamental "contours of social life."<sup>144</sup>

The historical institutionalist approach to path dependency theory characterizes political development as involving "critical junctures and developmental paths."<sup>145</sup> Two distinctly different yet complementary assertions are included within this framework. Firstly, there is an argument about how inflection points or "critical moments" of the institution-building processes lead nations on distinct developmental paths; secondly, institutions are continuing to change, albeit limited by past trajectories, as a result of constantly variable circumstances and continual political maneuvering.<sup>146</sup> Correspondingly, a Historical Institutional approach—and its related path dependency model—has valuable explanatory power that would help observe why the PR government has poorly managed the Island's economy and why it continues committing towards a heavy emphasis on industrialization and special economic incentives after the 50s. Additionally, PR's institutional focus on industrialization through economic incentives can be accurately framed using the path dependency approach, and this model would function as a building block for supporting my argument.

Specifically, in the case of PR, its political development would refer to the evolvement of PR's governmental/institutional focus on industrialization through financial incentives. I claim that PR's political development was unquestionably punctuated by a critical moment that shaped and transformed the Island's social and economic reality during the 50s and 60s.<sup>147</sup> In light of historical accounts, the creation of the Commonwealth of PR in the 1950s, along with its industrial efforts to draw in non-local corporations by offering financial incentives, marks a critical juncture.<sup>148</sup> Because, since then, PR has decided to develop its economy and produce economic expansion largely through non-local inputs such as "knowledge, capital, expertise, and

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<sup>142</sup> Greener, Ian. "The Potential of Path Dependence in Political Studies." *Politics*, vol. 25, no. 1, Feb. 2005. at p.64

<sup>143</sup> Pierson, Paul. "Increasing Returns, Path Dependence, and the Study of Politics." *The American Political Science Review*, vol. 94, no. 2, 2000. at p.251

<sup>144</sup> Id.

<sup>145</sup> Thelen, Kathleen. at p.387

<sup>146</sup> Id.

<sup>147</sup> Perrinjaquet, Olivier. at p.2

<sup>148</sup> Id. at p.6

entrepreneurship."<sup>149</sup> Despite having several alternatives at their disposal, PR policymakers chose to pursue a "tax-motivated, export-oriented industrialization strategy" that relied heavily on outside forces.<sup>150</sup>

Therefore, framing the year 1952 as PR's critical juncture can help analyze the rationality and self-sustaining characteristics of PR throughout its unique political, historical, and national path.<sup>151</sup> Additionally, Olivier Perrinjaquet (2016) argues that PR's economic developmental trajectory has clearly produced inadequate consequences over time. However, given the "entrenchment of social, political, and economic institutions" as well as the rapid economic growth immediately achieved after the creation of the PR Commonwealth and its industrialization efforts, altering the path chosen has been extremely challenging.<sup>152</sup> PR's economic developmental approach is undoubtedly flawed because rather than fortifying the bases of economic growth in PR, the Island's leaders have relied on the mainland (US) for significant investments and business organization and on Congress for unique financial incentives.<sup>153</sup> The Island's transition from agribusiness to industrialization, and its subsequent transition from an agrarian economy to an urban economy, did not take place as a result of free competition or conventional use of native economic factors.<sup>154</sup> Rather, it was the result of policy [tax incentives] implementations of the PR and US governments.<sup>155</sup> The driver for such a policy was ideological adherence to the industrial sector. This policy could have been favorable/justified if the Island's manufacturing sector developed to a degree where it could thrive without persistent reliance on special economic policies. However, decades after PR's industrial development strategy, the manufacturing sector has not been able to escape its dependence on those special financial policies. Additionally, the financial policies and the related ideology around them seem to have negatively affected the expansion of other economic sectors in PR.<sup>156</sup> Thus, observing PR's developmental path can help analyze why no appropriate economic or institutional modifications have been made to restart economic expansion, despite PR's economic development strategy displaying symptoms of deterioration after the 70s.<sup>157</sup> And more crucially, observing PR's developmental path can provide support for arguing that, indeed, PR's over-dependence on industrialization, as well as its internal political dynamics, have been harmful to economic recovery.

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<sup>149</sup> Id.

<sup>150</sup> Id.

<sup>151</sup> Thelen, Kathleen. at p.387

<sup>152</sup> Perrinjaquet, Olivier. at p.7

<sup>153</sup> Hexner, J. Tomas. & MacEwan, Arthur. at p. ix

<sup>154</sup> Id. at p.29

<sup>155</sup> Id.

<sup>156</sup> Id.

<sup>157</sup> Id. at p.5

Perrinjaquet (2016) suggests that "self-reinforcing path dependent processes generally start from critical junctures, which may be defined as historical moments when considerable changes in the institutional make-up take place that lead to a new path or trajectory which is difficult to change."<sup>158</sup> Scholars and previous studies from a historical institutionalist approach agree that path dependency is accentuated by moments of critical junctures.<sup>159</sup> For purposes of this study, critical junctures will serve as a theoretical cornerstone in support of my argument. Specifically, characterizing the creation of the Commonwealth in 1952 as a critical juncture and as a crucial turning point in PR's modern history enables us to observe how this point in time affected the Island's institutional and economic development. And most importantly, it serves as a starting point to study and analyze the logic behind PR's institutional emphasis on industrialization.

There are, of course, many possible critical junctures in PR's history, but undoubtedly the year 1952 stands out as being one of the most profound moments of political, economic, and social transformation on the island. It is important to appreciate that most scholars and historians regard the establishment of the Commonwealth of PR in 1952 as the birth of modern Puerto Rico and of its current institutions.<sup>160</sup> The creation of the Commonwealth not only saw a change in the Island's political status, it also set the tone for how economic development efforts would unfold and for how local politics would later organize. The new Commonwealth status rested on the idea that new and better alternatives for economic and social development would be available to the Island by strengthening the political and economic ties between PR and the US. Surely enough, PR benefited from stronger economic ties with the US and became the most prosperous and advanced country in the Caribbean and Latin American region.<sup>161</sup> As the economy of Puerto Rico developed throughout the 20th century, East Asian countries were compared with it due to the Island having one of the world's most rapid economic expansion rates.<sup>162</sup>

Therefore, framing the year 1952 as a critical juncture would serve as the foundation supporting the argument that the Commonwealth status' positive impact on PR's economic, social and political transformation during the 50s and 60's enabled the PR government to promote the notion that dependence on manufacturing and special financial incentives were necessary for the Island's economic performance and to the Islands progress/well-being. Such a characterization further supports the argument that the positive economic effects that came through rapid industrialization reinforced the notion that further economic prosperity could only be achieved with further emphasis on manufacturing and financial incentives. In other words, this notion could be characterized by the conflation of the Island's industrialist project and the fate of its

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<sup>158</sup> Capoccia, Giovanni, and R. Daniel Kelemen. at p.342

<sup>159</sup> Pierson, Paul. at p.263

<sup>160</sup> Dietz, James L. at p.240

<sup>161</sup> Schwab, Klaus. "The Global Competitiveness Report 2013–2014". *World Economic Forum*, 2013, pp.1-569.

<sup>162</sup> Collins, Susan M., et al., editors. at p.566

economic performance. Thus, the prevalence of this notion could explain why industry driven by incentives has been the government's central focus since the 50s—thereby opening the door to construct interpretations on the effects such an emphasis on industry has had on the Island's economic priorities.

## **5. Data Section**

### **5.1. Agriculture Sector**

The goal here is to observe and back by data how PR's agricultural sector was impacted by purposeful measures to curtail it. The abandonment of agriculture in PR responds to this study's Critical Juncture. Due to the Island's commitment and focus on industrialization, agriculture was perceived as unimportant for PR's economic future. PR's agricultural decline and continued disregard for agriculture also respond to this study's Critical Juncture. Specifically, reducing farm size and PR's agricultural output was seen as politically beneficial by the PDP party. Seeking political gain, the PDP leveraged popular resentment towards large agricultural operations (mostly sugar production) due to the belief that they were exercising undue political influence in PR, thereby signaling that agriculture in PR became a politicized issue.

#### **5.1.1. Data on the Island's dramatic shift out of agriculture**

The initial shift out of agriculture that began taking place in PR during the 50s was dramatic. The shift out of agriculture corresponded with the creation of the Commonwealth of PR and the industrialization strategy it promoted. This study defines the enactment/creation of PR's Commonwealth status and its closely linked pro-industrialization ideology during the 50s as this study's Critical Juncture. This shift out of agriculture was produced by purposeful policy choices meant to curtail agriculture while substituting its economic importance with industrialization. These policy shifts responded to PR's desires to avoid full colonization by the US; however, they were insufficient in achieving this goal because the Island was already largely dependent on the US. Three main policies largely responsible for this economic shift will be covered in this section. These are the Land Reform Law, The Industrial Incentives Act, and Section 936 (of the US tax code).

Prior to the industrialization boom, the Island's dominant economic sector was agriculture, where sugar, coffee, tobacco, and rum were exported to the US and Europe.<sup>163</sup> In 1940, agriculture accounted for 43 percent of all jobs.<sup>164</sup> A total of 23 percent of Puerto Rican wages were paid by

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<sup>163</sup> Bond, Craig A., et al. at p.8

<sup>164</sup> Id.

the sugar-producing sector by 1952.<sup>165</sup> Sugar industry salaries were a considerable part of Island income during this time; while sugar industry contributions made up a comparable portion of Puerto Rico's tax revenues. Agriculture contributed 17 percent of the Island's overall economic output and 30 percent of its employment in 1954.<sup>166</sup> However, the share of employment and production attributed to agriculture had dwindled to 6 percent and 3 percent, respectively, by 1977.<sup>167</sup> Undoubtedly, the agricultural sector was of massive importance before PR's industrialization efforts. What then happened to such a large share of the economy? And is it possible to identify a shared cause that is affecting Puerto Rico's agriculture and overall economy?

One of the main reasons for the collapse of agriculture includes an abandonment policy known as the Land Reform Law of 1941. Craig A., et al (2020) explain that as part of the Land Reform Law, the PDP instigated the nationalization of large farms and the designation of sugar processing facilities as "public utilities". The purpose of this policy was to reduce the size of farm operations and provide allocations to all small farms that produced - thereby limiting the growth potential of larger and more profitable farming operation. Additionally, this policy also encouraged producers to favor sugar sourced from small farms, small farm-friendly labor laws, and agricultural input and capital tariffs, as well as unionization of the agricultural sector.<sup>168</sup> It is important to appreciate that sugar had been a commercial crop under Spanish rule, but after PR came under US control, it replaced coffee as the major export, as tariff protection and mainland capital made it a big business.<sup>169</sup> By 1934 more than half of the cane land was in the hands of large corporations, many of them owned on the mainland.<sup>170</sup> Through Land Reform, the PDP sought to contest and crush the influence of the US sugar companies and their administrators, as they had been the dominant ruling group during the 1930s.<sup>171</sup> In other words, the PDP sought to limit dependence on the US and its colonialist influence in PR through Land Reform. Against this backdrop, the PDP presented itself as an agent for change and as an alternative to reform all aspects of society.

The PR Land Reform was a result of international initiatives from the 1940s to the 1960s that sought to "modernize" agrarian communities throughout the Latin American and Caribbean region. A democratic and socially just discourse emphasizing Land Reform and Allocation was

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<sup>165</sup> Bridgman, B., et al. What Ever Happened to the Puerto Rican Sugar Manufacturing Industry? Federal Reserve Bank, Research Department, 2012 at p.1

<sup>166</sup> Collins, Susan M., et al., editors. at p.33

<sup>167</sup> Id.

<sup>168</sup> Bond, Craig A., et al. at 9

<sup>169</sup> Edel, Matthew O. "Land Reform in Puerto Rico, 1940-1959: Part One." *Caribbean Studies*, vol. 2, no. 3, 1962. at p.27

<sup>170</sup> Id.

<sup>171</sup> García Colón, Ismael. "Playing and Eating Democracy: The Case of Puerto Rico's Land Distribution Program, 1940s-1960s." *Centro Journal*, vol. 18, Sept. 2006. at p.170

developed by the PDP based on the most widespread and influential narratives regarding reformation. In PR, resentment towards the power of the sugar companies fueled the widespread belief that they were exercising undue political influence. Liberal and nationalistic politicians often charged their opponents were handmaids of the sugar operators.<sup>172</sup> Along with the growth of anti-corporate feelings grew the power of the PDP as a new political party, making the attack on such corporations their main issue.<sup>173</sup> Luis Muñoz Marín, the founder of the PDP party, began a long campaign for support centered on the sugar industry. His campaign and discourses throughout the late 1930s and early 1940s consisted of conversations in cane fields and country stores, where he habitually stressed the vote's significance for "breaking the power of the sugar corporations."<sup>174</sup> During 1940 he argued that: "these corporations monopolized the land while an infinity of compatriots remain oppressed on the sinister nets of a strangling monopoly which fights to convert them into slaves of the great sugar centrals."<sup>175</sup> During the PDP discourses, Muñoz claimed that the corporations controlled other political parties, giving them more money to buy votes. He argued: "their power could be broken down only if the people refused to be bought, and voted for a party that had not mortgaged itself to the corporations by accepting their bribes."<sup>176</sup> This party, Muñoz indicated, was the PDP.

Consequently, the PDP party implemented the 1941 Land Reform Law, whose alleged aim was to break down the stronghold of corporate sugar latifundia and reconstitute a viable sector of family farmers with the potential of increasing and cheapening the Island's food supply.<sup>177</sup> In other words, the goal was to nationalize PR's lands to combat the Island's dependency on the US. However, in retrospect, and as will be presented in the remaining parts of this section, the motivations behind why agriculture was penalized through Land Reform seem to have had the wrong priorities. Moreover, these priorities were wrong or misguided in the sense that they helped provide popular support for the PDP as the leading party in PR but did not prioritize the Island's long-term economic development.

### 5.1.2. Data on how PR's dependence on agriculture was substituted by industrialism

Following PR's Land Reform Law, a series of policies, effectively taking hold with the enactment of the Commonwealth of PR status in the early 1950s, sped industrialization and contributed to the demise of the PR agricultural sector.<sup>178</sup> Among the most significant

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<sup>172</sup> Edel, Matthew O. "Land Reform in Puerto Rico, 1940-1959: Part One. at p.29

<sup>173</sup> Id.

<sup>174</sup> Id.

<sup>175</sup> Id. at p.27

<sup>176</sup> Id. at p.29

<sup>177</sup> Carro-Figueroa, Vivian. "Agricultural Decline and Food Import Dependency in Puerto Rico: A Historical Perspective on the Outcomes of Postwar Farm and Food Policies." *Caribbean Studies*, vol. 30, no. 2, Institute of Caribbean Studies, UPR, Rio Piedras Campus, 2002. at p.93

<sup>178</sup> Bond, Craig A., et al. at p.XV

developments was the Industrial Incentives Act of 1948, which gave rise to the Operation Bootstrap program. According to Pantojas-Garcia (1990), “the Industrial Incentives Act exempted private corporations from local income and business taxes, duties on equipment and raw materials, and city taxes for a period of 10 years.” This industrialization program was connected with PR’s agrarian reform (1941 Land Reform Law) directed at the sugar producing industry.<sup>179</sup> However, the Industrial Incentives Act signaled that the PR government’s new objective was to promote industry as the leading sector for Puerto Rico while furthering the downfall of agriculture. The shift from the promotion of Land Reform to the promotion of industrialization is the main effect of our Critical Juncture in relation to PR agriculture.

Our Critical Juncture enabled the process of substituting agriculture for Industry to occur while simultaneously implying that the PR Land Reform project would not be finalized. The abandonment of Land Reform meant that PR agriculture was purposely reduced to make “room” for the PDP’s new industrialist objectives. One of the main reasons why the PDP party abandoned Land Reform was because it posed a risk to its new pro-industrialization ideology. The PDP realized that Land Reform worked against industrializing PR because many of the large agricultural corporations were US-owned. Therefore further Land Reform would have served as a disincentive for attracting US investment and capital for industry. This conjuncture thus implied that PR Land Reform was insufficient in breaking economic dependence on the US because PR was, in fact, already highly dependent. Additionally, since Land Reform was basically the nationalization of PR land, the PDP sought to abandon the project in order to win the confidence of US investors who might have been worried socialism was permeating the PDP leadership. Thus, the remainder of this section will cover how our Critical Juncture enabled the substitution process of agriculture for industry.

While land dedicated to food crops continued to decline after an increase during the depression of World War II years (see Figure 5), PR still produced a significant proportion of its food supply well into the 1950s. Regardless, the newly devised policies (Land Reform and the Industrial Incentives Act) for the Island’s industrialization plan created an unprecedented expansion in food consumption and food imports resulting in a downward trend in the crop-based sub-sectors of PR’s agricultural sector.<sup>180</sup> Puerto Rico’s emphasis on industrialization coincided with a desire to significantly alter, if not eliminate entirely, its agriculture sector — most notably sugarcane production — which had long been a dominant industry on the Island. The reason why agriculture was abandoned was to make way for the Commonwealth’s ideological desire to modernize Puerto Rico through rapid industrialization and focus on manufacturing. During the

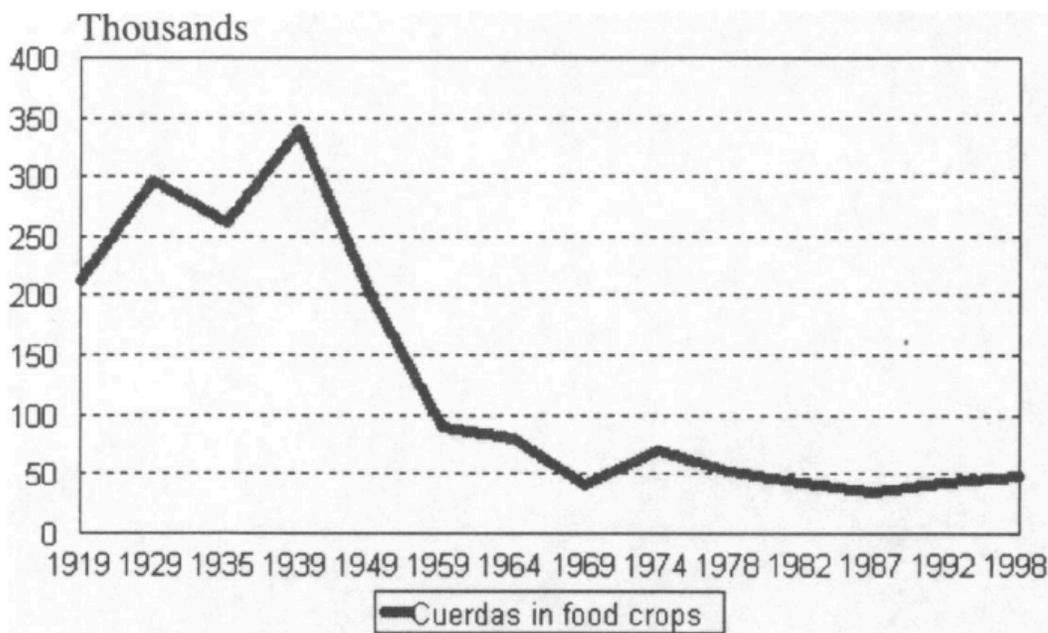
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<sup>179</sup> Ayala, Cesar J. “The Decline of the Plantation Economy and the Puerto Rican Migration of the 1950s.” *Latino Studies Journal*, vol. 7, no. 1, 1995. at p.9

<sup>180</sup> Carro-Figueroa, Vivian. at p.80

following three decades, following PR's industrialization program, the urban economy grew and farmworkers were relocated.<sup>181</sup>

**Figure 5**  
**Land in Selected Food Crops, Puerto Rico 1919-1998**  
**(farinaceous, rice, dry beans, pigeon peas).**



Source: Carro-Figueroa, Vivian. "Agricultural Decline and Food Import Dependency in Puerto Rico: A Historical Perspective on the Outcomes of Postwar Farm and Food Policies." *Caribbean Studies*, vol. 30, no. 2, Institute of Caribbean Studies, UPR, Rio Piedras Campus, 2002. at p.80

Between 1953 and the early 1980s, the area devoted to sugar harvesting decreased by over half, while the agricultural sector's proportion to PR's GDP dropped from 14 percent to 5 percent.<sup>182</sup> Observing PR agriculture even earlier—when it accounted for a greater share of PR's GDP—we see that from 1934 to 1980 agricultural output shrank from 45 percent to 5 percent of GDP.<sup>183</sup> Inversely, manufacturing soared to nearly 50 percent of PR's GNP by 1980.<sup>184</sup> These measurements showcase how the PR government sought to replace the dominance of agriculture with the dominance of manufacturing. It has to be said that this is precisely the main critique and

<sup>181</sup> Suarez, Nydia R. *The Rise and Decline of Puerto Rico's Sugar Economy*. Economic Research Service/USDA, Dec. 1998. at p.24

<sup>182</sup> Id.

<sup>183</sup> Bond, Craig A., et al. at p.9

<sup>184</sup> Id.

problem of PR's economy and its economic planning model. Effectively, PR switched from being highly dependent on one economic sector to another. However, the problem of over-dependence of the PR economy was not actually changed or addressed. Given that large US operations dominated PR's agricultural sector, colonial influence most likely pressured PR to adopt and depend on another economic sector that was similarly dominated by large US corporate interests (manufacturing). It is doubtful whether PR agriculture would have performed better than the manufacturing/industry sector simply due to the Island's limited geographical area and its propensity for natural disasters. Nevertheless, in terms of providing food security for the Island, agriculture should have been a more relevant economic sector for PR. This lack of diversification has been one of the PR economy's biggest hindrances.<sup>185</sup>

Moreover, during this period of economic transformation, manufacturing began to be highly promoted in the search for modernizing Puerto Rico, while agriculture was severely frowned upon. Farming became stigmatized by being seen as a poor man's occupation, denigrating in nature.<sup>186</sup> The PDP government initially promoted this sentiment through the Land Reform Law, which was instituted in PR as a response to the conditions prevalent during the 1930s. Living conditions had been low even before the depression of the 30s affected Puerto Rico. The leadership of the PDP had spoken of "farm after farm, where lean, undeterred women and sickly men repeated again and again the same story, little food and little opportunity to get more."<sup>187</sup> These discourses promoted by the PDP equated farming and agriculture with oppression, slavery, sickness, and lack of opportunities. The PDP-led narrative effectively disincentivized agriculture as a valuable economic activity for Puerto Ricans if they wished to "move ahead in life."

This shift within the PDP sought to make PR industrialization their main objective while distancing themselves from the previous Land Reform project. Specifically, this shift in focus came after the PDP secured the 1944 elections by a historic margin. With the PDP victory, they began to claim Land Reform as a completed achievement and as a benefit brought by the PDP leadership. The land distribution program became an essential symbol of legitimacy for the PDP and evidence that it would do as promised by guaranteeing landless residents financial ease, access to land, and liberation against work oppression. Land allocation was originally seen as one of the principal remedies to the socioeconomic challenges the PR faced in the late 30s and early 40s. With the PDP securing power in PR, however, the urgency and political importance of the Land Reform project was no longer there.

The PDP-led discourses also acknowledged that the conditions of agricultural workers were not the only objection to the Island's sugar-dominated agriculture industry. Even more grating was the US sugar corporation's power over the PR economy. More than two-fifths of the Island's

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<sup>185</sup> Collins, Susan M., et al., editors. at p.563

<sup>186</sup> Harris, Jenileigh, and Emily J. Spiegel. at p.27

<sup>187</sup> Edel, Matthew O. "Land Reform in Puerto Rico, 1940-1959: Part One. at p.26

cultivated area was devoted to cane, so that food had to be imported.<sup>188</sup> Access to food played an important role during the PDP's pro-Land Reform discourses. During the years of war and conflict, food shortages and other necessities plagued the Island. Thus public indignation against the US sugar companies intensified by their refusal to convert their land to produce foodstuff in Puerto Rico. The PDP's rhetoric and leveraging of the preexistent quarrels and injustices associated with the agriculture industry helped promote the eventual transition towards industry. The PDP argued that the next step following Land Reform should be the Island's industrialization in order to continue making strides in national development and decolonization efforts. As such, the PDP's shift in objective presented manufacturing as a solution to the misery of farmers by putting an end to sickness, starvation, and lack of opportunities for everyday people.

### **5.1.3. Data and arguments on how politically driven economic measures resulted in the downfall of agriculture**

Given the public indignation felt towards large US sugar producers by the mid-1940s, the government promoted a sentiment of modernization, and anti-agricultural practices were seen as politically favorable. Specifically, the reason why the Commonwealth government reduced the size of large farms and curtailed agriculture was because they believed targeting US sugar corporations (e.i., having less dependence on the US) made for good politics.<sup>189</sup> Subsequently, Puerto Rico's cultivated land declined from 85 percent to 37 percent during the 1940s to 1980s.<sup>190</sup> And the agriculture sector overall has radically declined since the 1970s (see Figure 6). Although the main target of the PR government was the curtailment of sugar, inevitably, they also wiped out a large part of the Agriculture sector as a whole. Additionally, the PR government decided to completely curtail and abandon agriculture instead of restructuring it and building upon the existing economic sector.

By the 1950s, there were in existence a myriad of reports and studies on the “comprehensive development of agriculture”—recommending increased investment in production and marketing infrastructure of food crops, curtailment in sugar cane acreage, and expanded credit availability for small and mid-sized farmers.<sup>191</sup> Despite the possible understanding of prospective solutions to the agricultural problems of the Island through the 40s and 50s, the PR government opted for the continued support of traditional export crops—sugar, coffee, and tobacco—and only minor reforms were made to benefit the rest of the agriculture sector.<sup>192</sup> Moreover, the government had not finished or culminated the Land Reform Law program when it had already shifted its focus

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<sup>188</sup> Id. at p.27

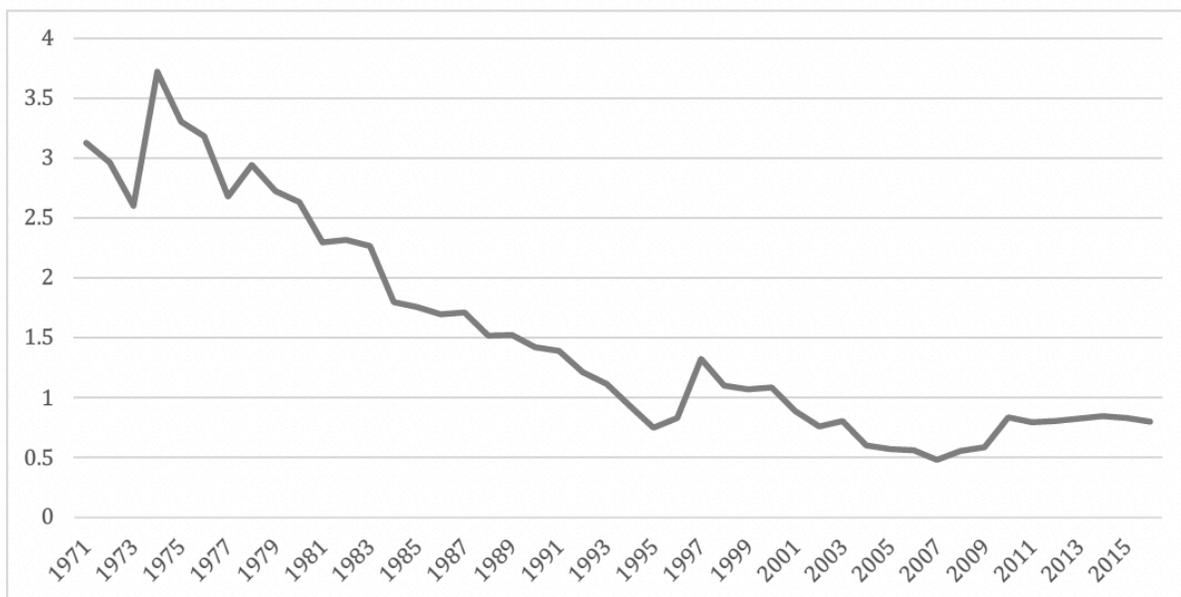
<sup>189</sup> Bridgman, B., et al. at p.5

<sup>190</sup> Bond, Craig A., et al. at p.63

<sup>191</sup> Carro-Figueroa, Vivian. at p.91

<sup>192</sup> Id. at p.93

**Figure 6 Puerto Rico Agriculture as Share (Percentage) of GDP (1971–2016)**



Source: Bond, Craig A., et al. *Challenges and Opportunities for the Puerto Rico Economy: A Review of Evidence and Options Following Hurricanes Irma and Maria in 2017*. RAND Corporation, 2020. at p.63

toward another objective. This new objective was industrialization. Following the PDP’s 1944 electoral victory after gaining popular support through their Land Reform project, the government now argued that the cure for all of PR’s difficulties was: “to raise productivity enough to give jobs to all, end dependence on external aid, provide work for an increasing population, and raise the standard of living to a level at which the birth rate would be reduced and population stabilized”.<sup>193</sup> To the PDP and most Puerto Ricans, increased production was virtually synonymous with industrialization. Nevertheless, although the PDP intended to limit economic dependence on the US through Land Reform, such efforts did not go far enough because PR was, in fact, dependent on the US (e.g., further land reform would result in the withdrawal of foreign investment).

The effect on agriculture, however, was that this new solution of the PDP was taking attention from the completion of Land Reform, thereby eliminating the prospect of perfecting land use and distribution. Checchi and Co.’s (1970:388) study further supports this assertion. They studied the prospective role marketing cooperatives could play in producing and marketing fruits and vegetables compared to the resource committed to the major cash crops. Checchi and Co concluded: “minimal attention was devoted to researching, extending, financing and regulating prices of the fruit and vegetable crops in PR.”<sup>194</sup> Furthermore, authors and analysts like Gordon

<sup>193</sup> Edel, Matthew O. “Land Reform in Puerto Rico, 1940-1959: Part One. at p.55

<sup>194</sup> Carro-Figueroa, Vivian. at p.91

Lewis of the University of Puerto Rico noted several reasons why Land Reform was abandoned. Foremost, PR industrialization meant dependence on mainland capital, as the government had attempted to build industrial plants during the 40s and discovered it needed more capital than it had.<sup>195</sup> Politically, this dependence prohibited any radical break with the US. These demands, in turn, worked against Land Reform because the US owned large agricultural corporations. Therefore, there may have been some fear that continued Land Reform would imperil the chances of attracting capital for industry. Such developments leading to the abandonment of Land Reform signaled the reaffirmation of PR's colonialist/dependent relationship with the US. Gordon Lewis further argued that the reason why the nationalization [of land] was abandoned was to gain the "confidence" of continental investors suspicious of anything smacking of socialism."<sup>196</sup> This was especially true given that the Cuban revolution and the Guatemalan government under Arbenz already increased tensions and the US's vigilance around the spread of socialism within the Latin American and Caribbean region.

Although PR's heavy dependence on sugar production was undesirable, it is questionable whether, more broadly speaking, the flourishing of the PR agricultural sector should have also been undesirable. The abandonment of the Land Reform Law effectively meant that PR agriculture would not have the backing of the PR government and would not receive as much attention as the industrialist program. Agriculture was an industry where PR products could have developed competitive advantages precisely due to its climate and quality soil. It has been suggested (Carro-Figueroa; 2002) that PR agriculture should focus on products where it holds natural advantages, such as coffee, citrus fruits, mangoes, horticultural plants, flowers, pineapples, organic fruit, tropical fruits, and poultry.<sup>197</sup> This would be different from manufacturing, where the Island does not hold a real competitive advantage besides policy-driven tax incentives. Nevertheless, one of the effects of abandoning Land Reform was that the tropical food supply of Puerto Rico became disengaged from the actual production conditions of local growers. Except for coffee, census data shows the breakdown of sugar and tobacco production and the fluctuating but overall decline in the numbers, land, and production of the most critical food crops, particularly evident in the case of roots after 1978 (see Tables 1 and 2).<sup>198</sup>

The lack of sufficient planning for PR's agriculture in accordance with the Island's local production and consumption needs could be explained by the notion that the Commonwealth government's agriculture reform was political in nature and its primary result was to provide the legitimacy the Commonwealth government needed to launch its new capital accumulation

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<sup>195</sup> Edel, Matthew O. "Land Reform in Puerto Rico, 1940-1959: Part One. at p.55

<sup>196</sup> Id. at p.56

<sup>197</sup> Collins, Susan M., et al., editors. at p.545

<sup>198</sup> Carro-Figueroa, Vivian. at p.89

**Table 1**  
**Farms and cultivated land of major cash crops and food crops for selected years since 1949.**

Characteristic	Farm numbers (thousands)						
	1949	1959	Year				1997
			1969	1974	1978	1987	
Sugar Cane	11.2	9.8	3.7	1.9	1.4	0.57	0.16
Coffee	24.7	23.0	14.1	12.9	11.1	9.1	10.6
Tobacco	14.9	8.3	12.1	0.9	0.6	0.07	---
Banana	31.8	22.4	6.4	10.5	17.2	6.9	4.1
Plantain	16.8	13.8	6.3	7.8	13.8	6.5	7.4
Tanier	21.0	11.0	5.8	5.5	6.0	1.9	1.0
Sweet Potato	25.6	9.0	2.5	2.4	2.9	0.89	0.32
Dasheen	12.5	5.4	---	2.0	2.7	1.1	0.68
Corn	24.3	8.4	---	2.2	2.5	0.83	0.17
Cassava	8.1	2.3	---	1.7	2.4	1.2	0.35
Pidgeon Pea	23.7	10.5	3.9	4.3	5.4	2.1	0.66
Yam	12.5	6.5	3.1	2.7	4.1	1.7	1.0

Characteristic	Land cultivated (thousand cuerdas)						
	1949	1959	Year				1997
			1969	1974	1978	1987	
Sugar Cane	344	320	180	128	105	46	17
Coffee	176	183	125	115	83	74	77
Tobacco	27	17	4	2	2	0.12	---
Banana	44.2	34.4	14.1	32.3	---	---	12.4
Plantain	15.1	15.9	8.3	13.3	---	---	28.5
Tanier	14.7	8.7	5.2	5.6	4.2	1.5	1.5
Sweet Potato	23.8	8.0	3.0	2.0	2.2	0.87	0.81
Dasheen	7.8	3.5	---	1.6	1.6	0.90	0.99
Corn	39.5	16.1	---	2.9	2.5	0.85	1.3
Cassava	3.7	1.3	---	1.1	1.3	0.98	0.56
Pidgeon Pea	20.4	11.6	6.2	7.9	8.5	5.7	1.9
Yam	6.1	4.3	2.2	2.2	2.8	1.7	1.5

Source: Carro-Figueroa, Vivian. "Agricultural Decline and Food Import Dependency in Puerto Rico: A Historical Perspective on the Outcomes of Postwar Farm and Food Policies." *Caribbean Studies*, vol. 30, no. 2, Institute of Caribbean Studies, UPR, Rio Piedras Campus, 2002. at p.89

**Table 2**  
**Production of major cash crops and food crops, for selected years since 1949**

Characteristic	Amount harvested						
	1949	1959	Year				1997
			1969	1974	1978	1987	
Sugar Cane <sup>a</sup>	10 699	10 155	5 894	3 858	2 297	1 169	269
Coffee <sup>b</sup>	257	290	175	231	183	246	295
Tobacco <sup>c</sup>	22.3	19.4	4.8	3.5	2.3	0.15	---
Banana <sup>d</sup>	---	---	332	1 039	229	184	328
Plantain <sup>d</sup>	100	---	95	165	76	126	291
Tanier <sup>b</sup>	241	188	138	168	73	21	32
Sweet Potato <sup>b</sup>	325	160	48	56	47	34	41
Dasheen <sup>b</sup>	163	97	---	58	36	22	27
Corn <sup>b</sup>	231	128	---	24	19	8	22
Cassava <sup>b</sup>	48	24	---	36	25	21	11
Pidgeon Pea <sup>b</sup>	69	76	40	57	92	45	23
Yam <sup>b</sup>	324	159	85	93	98	58	53

<sup>a</sup>Harvest measured in thousand tons.

<sup>b</sup>Harvest measured in thousand hundredweight

<sup>c</sup>Harvest measured in million pounds.

<sup>d</sup>Harvest measured in millions.

Source: Carro-Figueroa, Vivian. "Agricultural Decline and Food Import Dependency in Puerto Rico: A Historical Perspective on the Outcomes of Postwar Farm and Food Policies." *Caribbean Studies*, vol. 30, no. 2, Institute of Caribbean Studies, UPR, Rio Piedras Campus, 2002. at p.90

project based in the industrialization of the island.<sup>199</sup> Within the first draft of The Land Reform Act, land expropriations of individual holdings was provided for, but the PDP decided to remove this provision. The fact that Land Reform applied only to corporate landowners (mainly US owners) was an indication of the land law's non-economic character and colonialist influence on the PDP.<sup>200</sup> The owners of large estates were potential allies of the PDP party, and there was no nationalist objection to their power.<sup>201</sup>

Based on its discourses, the PDP was convinced it was combating the sugar corporations' heavy influence and political parties' influence. Thus the PDP saw Land Reform as a project for both political and economic advancement.<sup>202</sup> The PDP built its campaign for the elections of 1940 around certain symbols that directly appealed to the Island's rural and landless population. The PDP built its campaign efforts around "the slogan of 'Pan, Tierra y Libertad' (Bread, Land, and liberty) and its party symbol of a 'jíbaro' (a male rural folk)."<sup>203</sup> PDP leadership promised to eradicate the centralization of farmland dedicated to the intensive farming and production of sugar and counteract US corporate influence in PR.<sup>204</sup> The PDP, through the 1940s, believed that the distribution of land would be the main answer for the Island's socio-economic troubles because close to 80 percent of rural residents did not own or had access to land.<sup>205</sup> Therefore, the land allocation project evolved to be the most meaningful proof that the PDP could provide economic ease, access to land, and better living and working conditions for landless people. Such discourses around land nationalization, democratization, and fairness were directed at the landless workers, and many of them developed support for the PDP. The Land Reform, which took place during Muñoz's first term as majority leader of the legislature in 1940, was enough to provide the promised token of the party's good faith and to assure support.

In 1940 the PDP had promised land for "thousands of Puerto Rican families."<sup>206</sup> After the Land Reform Law was enacted in 1941, by December of that same year, the government purchased "Sabana Seca" with 468 acres of land and began distributing farmland for the very first time.<sup>207</sup> They marked off approximately 1 acre for families, a common pasture, and plots for public facilities. Already by mid-April of 1944, 295 families were settled on the plots. After 18 months

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<sup>199</sup> Id. at p.93

<sup>200</sup> Edel, Matthew O. "Land Reform in Puerto Rico, 1940-1959: Part One. at p.39

<sup>201</sup> Id.

<sup>202</sup> Id. p.48

<sup>203</sup> García Colón, Ismael. at p.171

<sup>204</sup> Id. at p.171

<sup>205</sup> Id. at p.168

<sup>206</sup> Edel, Matthew O. "Land Reform in Puerto Rico, 1940-1959: Part One. at p.33

<sup>207</sup> Id. at p.44

of purchasing “Sabana Seca”, the government purchased one of its first corporate land estates. Central Cambalache, Inc. owned close to 10,000 acres in the town of Arecibo, and by August 1943, the government purchased 9,245 acres for 1.5 million dollars.<sup>208</sup> Approximately 2000 acres were set aside for families. The rest was divided into six proportional profit farms where experienced “mayordomos” (stewards) were selected as their administrators.<sup>209</sup> Their share of the profits was set at 15 percent, and they were also given an annual salary.<sup>210</sup> The Cambalache project began operating in 1944, and the harvest of that year yielded 553,891 dollars for distribution among the workers.<sup>211</sup>

Additionally, by 1944 Land Reform communities were being established for “agregados” (land in exchange for work) at the rate of one village every ten days. By the end of WW2, more than 14,000 parcels had been distributed. Such Land Reform projects like Cambalache and Sabana Seca were inaugurated with a great deal of publicity. For example, a “humble worker” was found handing over the purchase check to the sugar company representatives, and La Democracia (one of PR’s largest newspapers at the time) quoted him saying: “This is the check, Señor, for the land that for many years has exploited us, and that from now on we will exploit for our own benefit.”<sup>212</sup> When land was acquired, it was surveyed into lots for families and public facilities. The land was distributed through a drawing which would be well publicized through newspapers and radio. For instance, La Democracia newspaper equated the first proportional profit farm with the PDP party’s slogan: “Cambalache is bread! Cambalache is Land! Cambalache is Liberty!”<sup>213</sup> The drawings themselves were major ceremonies where a priest or other dignitary would supervise the drawings, and several high-profile PDP officials usually frequented such events.<sup>214</sup> The constant publicity that the PDP gave its Land Reform Program after 1941 had both an emotional basis and political use.<sup>215</sup> The party had to fulfill its pledge to the people in some visible form. When the PDP leadership had asked the “campesinos” (rural folk) for their votes, they had promised them results. Constant and well-publicized land division was evidence that the PDP was making good on its word.

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<sup>208</sup> Id.

<sup>209</sup> Id. at p.45

<sup>210</sup> Id.

<sup>211</sup> Id.

<sup>212</sup> Id.

<sup>213</sup> Id.

<sup>214</sup> Id. at p. 49

<sup>215</sup> Id. at p.29

Shortly after the PDP's Land Reform project was enacted, the PDP won the 1944 elections by a landslide victory without precedents in the history of PR.<sup>216</sup> The PDP elected 17 of 19 senators, 37 of 39 representatives, and mayors in all but 4 of over 70 municipalities. With the PDP's victory, the previous political coalition was destroyed, and with it, the PDP fear of the sugar companies exercising political control in PR. Subsequently, the feeling could now take root that Puerto Ricans were their own political masters, especially since Washington was promising home rule and an elective governorship (through PR's Commonwealth status).<sup>217</sup> Through a Commonwealth agreement approved by the US Congress, the people of PR were able to elect government officials and enact legislation.<sup>218</sup> As a result of the absence of federal involvement, the governor would be in full control of selecting cabinet members and key executive branch representatives, the legislature would decide government expenditures, and the courts would amend the criminal and civil codes.<sup>219</sup> Thus, the PDP began to speak of Land Reform as a completed achievement, and by 1948 campaign posters listed land reform and the breaking of corporate power as a benefit that the PDP had given.<sup>220</sup>

The PDP had intended, at the end of WW2, to round off its achievement by acquiring the rest of the lands, but the urgency was gone, and the government never fully realized this initial goal. The PDP's Land Reform promised the eradication of the corporate latifundia. However, the PDP fell short of its goal, and out of the 33 corporations that violated the 500-acre law, only seven were acquired by the government, and five others sold all or part of their lands to mainlanders under the FSA (Puerto Rico Farm Service Agency) supervision.<sup>221</sup> By the late 1940s, the Land Reform objective was abandoned, allowing two out of the main four US-owned corporations to retain their lands.<sup>222</sup> This possibly signals that PR was, in fact, dependent on the US and that the PDP's objective was not actually a fully completed Land Reform but rather to gain majority support and legitimize its power. Previous studies on the "modernization" programs of the PDP support this notion by describing the effects of land distribution "were to provide the PDP with a base of electoral support" (Mathews 1960; Dietz 1986; Pantojas García 1990).<sup>223</sup>

An adequate example of such dynamics can be appreciated by observing how the PDP government used the Land Reform program as a tool for political advancement. PDP discourses

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<sup>216</sup> Id. at p.53

<sup>217</sup> Id. at p.54

<sup>218</sup> Duany, Jorge. *Puerto Rico : What Everyone Needs to Know.* at p.74

<sup>219</sup> Id.

<sup>220</sup> Edel, Matthew O. "Land Reform in Puerto Rico, 1940-1959: Part One. at p.54

<sup>221</sup> Edel, Matthew. "Land Reform in Puerto Rico, 1941-1959: Part Two." *Caribbean Studies*, vol. 2, no. 4, 1963. at p.48

<sup>222</sup> Id.

<sup>223</sup> García Colón, Ismael. at p.169

often argued that: “at the peak of the Cold War, the land distribution program served to promote land reform, urbanization, and industrialization to counter the “menace” of communism.”<sup>224</sup> The PDP leadership knew that the Cold War amplified PR’s role in illustrating how democracy could be extended through development.<sup>225</sup> PR did this through two US-led initiatives, the Point IV and Alliance for Progress programs. US President Harry S. Truman launched the Point IV initiative during his inauguration speech in 1949 to provide support for “underdeveloped nations.” And the Alliance for Progress was President JFK’s aid program for Latin America designed to improve US relations with Latin America. As such, these two US presidential programs aimed at developing nations meant that Land Reform and land distribution in PR became showcases of development from the 50s to the 60s.

As Garcia-Colon (2006) observed, the Puerto Rico case stood as an especially relevant example because the US government and its policymakers “saw PR as a ‘social laboratory’ for developing Latin American and Caribbean foreign policy.” Political leaders (the PDP) advocated for PR’s development strategy by hosting international state functionaries for visits to Land Reform communities, industrial facilities, urban planning projects, as well as various manufacturing and socioeconomic development projects.<sup>226</sup> Under Truman’s Point IV program and JFK’s Alliance for Progress, a number of Land Reform communities in PR served as demonstrations of progress when international representatives traveled to the Island.<sup>227</sup> In these visits, PR was displayed as an example of success as a means of cultivating a legitimate political environment for the PDP and the US colonial authority on the Island. Therefore, we can argue that the reason why PR’s Land Reform was politically motivated was because it helped legitimize the PDP’s power both locally as well as receiving support from the US. Additionally, PR’s Land Reform was political in nature because it served as an initial stage towards garnering support for the PDP’s industrial program, where a significant portion of the acquired land was later ceded to large multinationals. Not to mention that presenting PR Land Reform as a success of the PDP meant that potential future investors would have more confidence and be willing to invest if PR and its government showed positive signs of development and “progress.”

The Industrial Incentives Act of 1948 transformed agrarian production into industrial production as the driving force for the PR economy. Consequently, it was the most influential policy in determining the fate of PR agriculture. Therefore, we can say that PR’s agricultural sector suffered from the island’s industrialization program and the government’s disregard for agricultural production during the peak of PR’s industrial development.<sup>228</sup> It is important to note that the Land Reform project developed in line with the industrialization process, and the PR

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<sup>224</sup> Id. at p.185

<sup>225</sup> Id. at p.170

<sup>226</sup> Id. at p.185

<sup>227</sup> Id. at p.170

<sup>228</sup> Carro-Figueroa, Vivian. at p.91

government was successful in locating industrial plants near many of the resettlement communities established as a result of the Land Reform program.<sup>229</sup> Such strategies guaranteed that future sites for industrial operations would have communities of potential workers in close proximity. Additionally, Land Reform contributed to industrial capital investment as many of the acquired lands were later ceded to large continental investors and multinationals.

In addition to PR's other major projects, PR Land Reform had a profound significance for the local community. By 1948 Land Reform distribution increased until nearly 5000 families a year were being resettled; almost as many had received plots in 1944.<sup>230</sup> And by 1950, the government was able to reinstall about 48,000 families on small plots located around 287 amply-serviced rural communities.<sup>231</sup> However, as a result of the PDP's push for industrialization as the principal economic catalyst for PR, the agricultural economic importance of land had diminished during the Island's modernization period. Because the land distribution program was largely deemed a success, land use and land allocation for the landless population were no longer pressing concerns. As a consequence, the Land Reform project had ceased to represent the legitimacy of the PDP.<sup>232</sup> In large part, this is precisely why the PDP and the following administrations disregarded land use for agriculture in PR after land use became less politically important after the 50s. The policy shift of replacing the Land Reform Program with the Industrial Incentives act corresponded with the simultaneous downfall of agriculture's economic importance and the rise in productivity of the industry sector.

Nonetheless, the economic benefits achieved through PR industrialism were short-lived, and the sector began to slow down by the 70s. Its economy expanded at an average annual rate of 8.8 percent between 1950 and 1960, making it one of the world's top economies.<sup>233</sup> Up until the 1970s, unemployment rates remained relatively steady at around 12 percent until the recession greatly affected the economy and catapulted unemployment to approximately 20 percent.<sup>234</sup> However, some reports suggest that the actual unemployment rate likely exceeds the government's figures.<sup>235</sup> According to a state-funded study, if federal workplace participation rates were applied to PR, unemployment rates in 1974 were likely to increase to in excess of 27

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<sup>229</sup> Mathews, T. "The Agrarian Reform in Cuba and Puerto Rico". *Revista De Ciencias Sociales*, n.º 1, marzo de 1960. at p.117

<sup>230</sup> Edel, Matthew. Land Reform in Puerto Rico, 1941-1959: Part Two. at p.28

<sup>231</sup> Mathews, T. at p.117

<sup>232</sup> García Colón, Ismael. at p.185

<sup>233</sup> Caban, Pedro A. "Industrial Transformation and Labour Relations in Puerto Rico: From 'Operation Bootstrap' to the 1970s." *Journal of Latin American Studies*, vol. 21, no. 3, Cambridge University Press, 1989. at p.565

<sup>234</sup> Id.

<sup>235</sup> Id. at p.575

percent.<sup>236</sup> In response to these conditions, Section 936 of the US tax code was instituted, continuing a policy of manufacturing incentives that furthered the transition from agriculture to industrialization.<sup>237</sup>

Essentially, Section 936 was a continuation of PR's industrialization by way of policy and tax incentives which originated with Operation Bootstrap.<sup>238</sup> More specifically, section 936 constituted a revised version of section 931, the backbone of Operation Bootstrap, since it encouraged US companies to invest in PR by allowing earnings derived from US subsidiaries to escape corporate taxation under PR law.<sup>239</sup>

In the mid-70s, PR encountered its first financial and economic crisis since the end of World War II. An economic expansion strategy based on private gains, propounded by a flawed economic framework based on financial incentives rather than an economy based on national interests became the hallmark of this period of financial struggle for the Island.<sup>240</sup> Also, the island's expansion model appeared to lack a strong linkage with an industrial policy that was robust and comprehensive.<sup>241</sup> PR's preferred economic expansion strategy had become obsolete, and structural adjustments were required in order to avoid exacerbated financial difficulties in the future.<sup>242</sup> "Industrialization by invitation" was the guiding principle at PR, and it was used to lure external capital by offering a variety of financial incentives--such as reduced utility rates, accelerated construction, property acquisition, tax rebates, and exclusions--as a means to draw in external capital.<sup>243</sup> Initial plans envisioned this project as a starting point in industrialization, laying the foundation for forging a globally competitive local industry that would eventually thrive independent of financial incentives.<sup>244</sup>

However, Puerto Rico's financial struggles during the 70s demonstrated the limits of dependent economic expansion, threatening the "equilibrium between economic growth and distribution," -- instrumental in the PDP's rise to power.<sup>245</sup> In place of addressing the Island's innate structural

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<sup>236</sup> Id.

<sup>237</sup> Bond, Craig A., et al. at 68

<sup>238</sup> Id. at 65

<sup>239</sup> Hexner, J. Tomas. & MacEwan, Arthur. at p.31

<sup>240</sup> Pérez, Argeo T. Quiñones, and Ian J. Seda-Irizarry. "The Political Economy of Contemporary Puerto Rico." (Post-)Colonial Archipelagos: Comparing the Legacies of Spanish Colonialism in Cuba, Puerto Rico, and the Philippines, edited by Hans-Jürgen Burchardt and Johanna Leinius, University of Michigan Press, 2022. at p.120

<sup>241</sup> Id.

<sup>242</sup> Id.

<sup>243</sup> Id. at p.121

<sup>244</sup> Id.

<sup>245</sup> Id.

deficiencies caused by an over-reliance on external investments, PR's government opted to strengthen such mechanisms through Section 936. The government was unable to come up with a comprehensive solution to address the Island's dependence on a sector showing signs of deterioration (see Table 3). Strengthening the economic dependence on a dwindling sector signals that colonialist influence and pressure from interest groups (e.i., large US corporations seeking further gains) most likely drove PR leaders to support an activity seemingly antagonistic to long-term economic development. Furthermore, the passing of Section 936 tax incentives in 1976 responds to a path-dependent process where past success using tax incentives justified further increases in incentives to promote further economic growth. It is therefore implied that PR's economic fate was to be sealed by the indefinite inclusion of financial incentives within the economic expansion program initially allowed by the PR government as only an interim strategy.<sup>246</sup> With the definitive commitment towards industrialism through incentives also came the definite abandonment of the dominant economic sector prior to the Island's industrialization—the PR agricultural sector.

**Table 3 Real GNP Growth in Puerto Rico and the United States, 1950 to 2017, Percent Change in the Decades and in the Whole Period**

	<u>Puerto Rico</u>	<u>United States</u>
1950s	67.7	42.5
1960s	96.9	51.9
1970s	40.5	37.3
1980s	20.9	37.6
1990s	31.6	39.8
2000s	- 3.6	19.9
2000-2017	-7.4	15.7
1950-2017	658.9	793.0

Source: Hexner, J. Tomas. & MacEwan, Arthur. Puerto Rico: The Economy and Political Status Why are Things So Bad and How Can the Situation Be Improved?. Development Discussion Papers 2021-03. JDI Executive Programs, 2021. at p.33

## 5.2. Business Sector and Local Entrepreneurs

The data supports how PR's local business sector suffers obstacles limiting its flourishing. Particular obstacles are those associated with the Island's inefficient regulatory system, which is a factor leading to what can be described as a "difficult business environment" and a large public

<sup>246</sup> Dietz, James L. at p.251

sector that limits the growth of the local business sector.<sup>247</sup> This study's Critical Juncture can be used to frame the lack of attention toward local businesses and entrepreneurs. Additionally, our Critical Juncture can also support the hypothesis suggesting that the inefficiencies of the public sector respond to the Island's internal political dynamics.

### **5.2.1. PR's over-politicized institutions resulting in a lack of planning and support for local business**

An economy that is "over-politicized" lacks continuity in government economic policy and is centered on politics rather than economics.<sup>248</sup> The term "over-politicized" often relates to rent-seeking behaviors, nepotism, corruption, and short-term planning as a consequence of political calculation trumping over economic concerns. We can begin to trace the "over-politicization" of PR's institutions/agencies through this study's Critical Juncture. Our Critical Juncture is marked by the enactment of the Commonwealth of PR which gave rise to institutions that promoted the islands's industrialization efforts through economic incentives. An economic policy driven by attracting foreign capital and achieving rapid industrialization drove the establishment of many agencies/institutions responsible for economic policy during the 40s and 50s.<sup>249</sup> Through financial incentives, the PR government fostered a "rent-seeking culture" in the business sector and a heavy-handed approach to government.<sup>250</sup>

In particular, PR's local business sector is infamous (Dietz 1986; Collins, Susan M., et al., editors 2006; Hexner and MacEwan 2021) for being extremely difficult to navigate, inefficient, and prone to special favors or rent-seeking behaviors. Puerto Rico placed at number 64 out of the 190 economies analyzed in the World Bank's 2018 Ease of Doing Business report, while the US placed at number 6.<sup>251</sup> As defined by the World Bank (World Bank Group, 2017), "Ease of Doing Business scores economies on a scale of 1 to 190, with the highest ranking indicating that the economy is most competitive. Highly ranked companies (low numerical rank) are characterized by a favourable regulatory climate." A nation's Ease of Doing Business Index is based on 11 indicators that are included in the World Bank's Doing Business Report (see Figure 7). The World Bank ranking classifies economies from 1 to 53 as having a "very easy" level of doing business, 54 to 97 as "medium" or "average," and 149 to 190 as "below average." Based on this ranking, Russia and Rwanda are considered to be more conducive to doing business than Puerto Rico.

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<sup>247</sup> Collins, Susan M., et al., editors. at p.571

<sup>248</sup> Id.

<sup>249</sup> Id. at p.77

<sup>250</sup> Id. at p.284

<sup>251</sup> World Bank Group. Doing Business 2018 Reforming to Create Jobs. The World Bank, 2017.

**Figure 7 Indicators in the World Bank 2018 Ease of Doing Business Report**

<b>Starting a business</b>	Procedures, time, cost, and paid-in minimum capital to start a limited liability company
<b>Dealing with construction permits</b>	Procedures, time, and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system
<b>Getting electricity</b>	Procedures, time, and cost to get connected to the electrical grid, the reliability of the electricity supply, and the transparency of tariffs
<b>Registering property</b>	Procedures, time, and cost to transfer a property and the quality of the land administration system
<b>Getting credit</b>	Movable collateral laws and credit information systems
<b>Protecting minority investors</b>	Minority shareholders' rights in related-party transactions and in corporate governance
<b>Paying taxes</b>	Payments, time, and total tax rate for a firm to comply with all tax regulations as well as post-filing processes
<b>Trading across borders</b>	Time and cost to export the product of comparative advantage and import auto parts
<b>Enforcing contracts</b>	Time and cost to resolve a commercial dispute and the quality of judicial processes
<b>Resolving insolvency</b>	Time, cost, output, and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency
<b>Labor market regulation</b>	Flexibility in employment regulation and aspects of job quality

SOURCE: Bond, Craig A., et al. Challenges and Opportunities for the Puerto Rico Economy: A Review of Evidence and Options Following Hurricanes Irma and Maria in 2017. RAND Corporation, 2020. p.121

Even though PR's ranking would be considered an "easy" level of doing business, the Island's rank has been continually worsening since the World Bank "Doing Business" reports included it in 2006. PR's ease of doing business peaked in 2007 with a rank of 19th place, joining the world's top 20 economies for business, while the US placed 3rd that same year. However, as previously mentioned, during the 50s and 60s, PR's economic growth was on par with that of the US. Therefore, the key takeaway here is how far off PR's economy is to the US. One would expect PR to be closer, given that PR is both federally regulated and an economic sub-region of the US. Hence PR's lagging behind the US; one possible explanation would point toward internal factors having played a significant role in accounting for why doing business has become more difficult in PR than in the continental US. Therefore, internal determinants will be the main focus here. Concerning efficiencies, PR is, on average, 17 percent more inefficient compared to the US overall, according to the 2018 report (see Table 4). For PR to expand, it might seem reasonable to think it needs to achieve higher financial results than its Caribbean counterparts. However, in contrast with other Caribbean countries, PR is considered an economic subregion of the US, so capitalists and companies typically decide between PR and the mainland US.<sup>252</sup> It is, therefore, more appropriate to compare PR's economic competitiveness with the US as opposed to other Caribbean countries.

<sup>252</sup> Bond, Craig A., et al. at p.122

**Table 4 Puerto Rico Versus U.S. Ease of Doing Business (2017 and 2018)**

Topics	U.S. – New York			Puerto Rico – San Juan			(PR DTF – US DTF)/US DTF	
	DB 2018 Rank	DB 2018 DTF	DB2017 DTF	DB 2018 Rank	DB 2018 DTF	DB2017 DTF	2018 DTF	2017 DTF
Overall	6	82.54	82.55	64	68.85	68.8	-17%	-17%
Starting a business	49	91.23	91.23	47	91.29	91.23	0%	0%
Dealing with construction permits	36	75.77	75.74	138	60.17	59.37	-21%	-22%
Getting electricity	49	82.14	82.14	69	76.94	76.55	-6%	-7%
Registering property	37	76.8	76.8	153	47.19	47.29	-39%	-38%
Getting credit	2	95	95	6	90	90	-5%	-5%
Protecting minority investors	42	64.67	64.67	108	50	50	-23%	-23%
Paying taxes	36	84.13	84.08	161	52.42	52.42	-38%	-38%
Trading across borders	36	92.01	92.01	64	81.86	81.86	-11%	-11%
Enforcing contracts	16	72.61	72.61	113	54.41	54.41	-25%	-25%
Resolving insolvency	3	91.07	91.18	9	84.2	84.84	-8%	-7%

SOURCE: Bond, Craig A., et al. Challenges and Opportunities for the Puerto Rico Economy: A Review of Evidence and Options Following Hurricanes Irma and Maria in 2017. RAND Corporation, 2020. p.123

Its inefficiency in "issuing construction permits, enforcing contracts, paying taxes, protecting minorities, and registering property" are some of the main obstacles limiting PR from having a productive business environment.<sup>253</sup> The World Bank provides supporting data that illustrates how the PR government and its procedures hinder the business sector. Figure 8 further illustrates PR rankings on the ease of doing business topics. Compared to other nations classified as high-income by the World Bank, PR requires nearly 50 percent more steps to register a property, resulting in an eight-fold more protracted process (number of days).<sup>254</sup> Additionally, PR's tax collection system falls below the standard set by countries with high incomes, especially when it comes to the amount of annual tax collections, the time it takes for individuals to file their taxes, and the general amount collected.<sup>255</sup> As a result of these measurements, it appears that expenses related to indicators of "Ease of Doing Business" are more significant in PR than in the US.

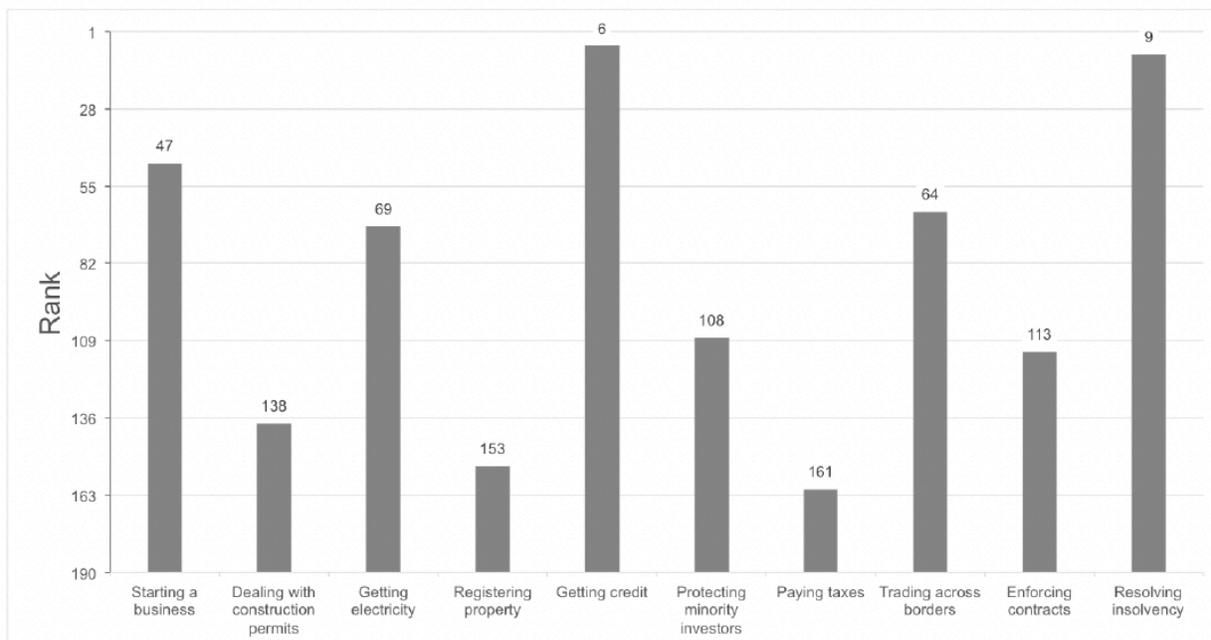
Compared to the total number of employment opportunities in Puerto Rico, the private sector is very small.<sup>256</sup> Following PR's numerous fiscal crises (during the 70s and 2010s), the business

<sup>253</sup> Id.

<sup>254</sup> Id. at p.123

<sup>255</sup> Id.

<sup>256</sup> Collins, Susan M., et al., editors. at p.576

**Figure 8 Puerto Rico Rankings on World Bank Doing Business Topics**

Source: Bond, Craig A., et al. *Challenges and Opportunities for the Puerto Rico Economy: A Review of Evidence and Options Following Hurricanes Irma and Maria in 2017*. RAND Corporation, 2020. at p.122

sector has been widely critiqued as one of such sectors where government meddling and poor management have limited its growth. Regulatory restrictions and a system of government heavily compromised by "conflicting rent-seeking interest groups" are among the principal causes pertaining to the absence of a vibrant domestic private sector.<sup>257</sup> Such interest groups were mainly comprised of government officials at the municipal and state level as well as corporate investors looking to leverage PR's tax breaks and subsidized credits.<sup>258</sup> Despite PR's efforts to boost the island's economy, implementation strategies lack consistency, and projects are often abandoned when a new political party takes power.<sup>259</sup> PR's internal politics and the over-politicization of its intuitions lead to precisely this lack of continuity towards economic planning and lack of support for local business. An example of "over-politized" institutions and lack of planning can be appreciated with the Island's permitting process, which performs very poorly according to the World Bank.

The permitting process involves the government monitoring and enforcing property development and commercial operations, as well as granting a range of permits for businesses.<sup>260</sup> The World

<sup>257</sup> Id.

<sup>258</sup> Id. at p.286

<sup>259</sup> Id.

<sup>260</sup> Id. at p.256

Bank and previous economic analyses (Dietz 1986; Collins, Susan M., et al., editors 2006; Hexner and MacEwan 2021) have concluded PR's licensing system exacerbates the Island's unemployment rate and restricts business growth and job creation. Collins et al. (2006) have observed that PR's permit issuance procedure is unreliable, expensive, time consuming, and easy for politicians, corporate interests, and special interest groups to exploit. Complicated and inefficient permitting processes add additional expenses for upcoming enterprises, undermining job creation efforts, and such expenses disproportionately affect smaller and younger companies or individuals without political connections.<sup>261</sup> Thus, the permitting system may suppress the emergence of a thriving culture of entrepreneurship or encourage informal business activity due to all these factors.

There is a major issue in that the process for obtaining permits is handled by the governor's office, which is responsible for procedures such as zoning variances, site selection, obtaining permits, and obtaining environmental authorizations.<sup>262</sup> Moreover, since newly developed construction projects or large-scale renovations of preexisting properties require clearance from multiple agencies that directly report to the PR governor, the centralization of the permitting process may adversely affect upcoming business activities. As a consequence of such centralization, it is generally assumed that a high level of politicization and corruption is common within the planning and construction processes.<sup>263</sup> Several factors contribute to this problem, including political appointees to bureaucratic posts, a lack of administrative staff, and an absence of supervisory oversight.<sup>264</sup> The permitting process is characterized by the absence of technical expertise and professional accountability, where many such professionals commonly commit errors and fail to provide proper documentation to regulatory authorities. Poor professional performance within these procedures has been a recurring issue because their training and work experience in one of the various agencies does not provide full recognition and knowledge of the protocols and requirements established in other permitting departments.<sup>265</sup> These dynamics within the permitting process respond to broader institutional politicization. For example, government workers with political connections but with limited experience and expertise come to supplant more competent employees when a change in party control of the state occurs.<sup>266</sup>

Permitting corruption has been documented in the literature (Davis, Steven J., and Luis Rivera-Batiz 2005; Collins et al. 2006) and has been widely recognized as negatively impacting the business climate of PR. For instance, Davis and Rivera-Batiz (2005) highlight that in order to

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<sup>261</sup> Id.

<sup>262</sup> Davis, Steven J., and Luis Rivera-Batiz. *The Climate for Business Development and Employment Growth in Puerto Rico*. Working Paper, 200, The University of Chicago, George J. Stigler Center for the Study of the Economy and the State, 2005. at p.34

<sup>263</sup> Id.

<sup>264</sup> Id. at p.36

<sup>265</sup> Collins, Susan M., et al., editors. at p.299

<sup>266</sup> Id. at p.298

circumvent the system and gain access to permits, "money is passed under the table". They also mention that former public representatives have confirmed the prevalence of such practices where the integrity of many agencies like "ARPE, the Planning Board, and the Health Department" are compromised by monetary influence.<sup>267</sup> Moreover, the process of acquiring permits is also hampered by ineffective administrative issues characterized by a lack of inter-agency transparency and poor channels of communication. During the various phases of a permit's approval process, 19 agencies must sign off on it, and some of them can halt the process if they encounter political, business-related, or environment-related objections.<sup>268</sup>

Similar to the permitting process, the Island's education system provides another example of the politicization within PR's institutions. Although education might not be directly associated with the local business sector, observing it can help demonstrate how institutions in PR become compromised by political maneuvering. And one can argue that quality education could be conducive to empowering entrepreneurial endeavors, strengthening the business sector, and improving labor force participation. The Island's political parties can influence not only the nature of government policies but also recruitment and contracting decisions, including the official language used in the public sector, all succumb to political affiliations when a new party takes office.<sup>269</sup> It is possible to observe such dynamics within the education system where policies driven by political maneuvering can impact all aspects of schooling, ranging from educational program development to what language will be used during student evaluations and examinations.

Precisely, the tension between Puerto Rican educators captures the effects of institutional politicization, where affiliations with the three main political parties in PR similarly produce three different governing bodies of teachers.<sup>270</sup> Attempts to limit the inherent division among teachers led to the creation of a central body of educators serving as the exclusive representative of teachers; however, the other two associations continued to operate, challenging the power and authority of the central body. In addition to vocal criticism, these adversarial groups have gone so far as to file legal actions to limit the central body's power by declaring it illegitimate. Again, this highlights the problem of conflicting agendas within institutions that lead to an insufficient exchange of information, producing an organizational structure that is more difficult to navigate, lacks a comprehensive understanding of regulations and responsibilities, with a high propensity for discrepancies and overlapping of functions.<sup>271</sup> Thus, it is unclear whether increased regulatory effectiveness is possible without improved accountability in institutions and reduced

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<sup>267</sup> Id.

<sup>268</sup> Id.

<sup>269</sup> Id. at p.214

<sup>270</sup> Id.

<sup>271</sup> Id. at p.215

influence by party politics to strengthen the quality of services provided to business sectors, based on these discussions on politicization within PR's intuitions.

### **5.2.2. PR's public sector inefficiencies are regarded as an obstacle for the Island's local business sector**

A substantial portion of PR's labor force and economic output is currently provided by the public sector, resulting in lowered competitive pressures and suppressing the emergence of a thriving local business class.<sup>272</sup> An overly expansive public sector is believed to diminish PR's competitive environment for businesses in a number of ways. According to Davis and Rivera-Batiz (2005), a primary factor is that due to the nature of public corporations, they usually conduct business with "softer" financial restrictions when compared to independent businesses because such corporations can easily resolve public corporations' economic hardships through taxpayer money. A secondary point, closely connected to the previous one, is that privately held companies have more pressure to perform because they depend on generating profits in order to survive.<sup>273</sup> Furthermore, whenever publicly and privately held enterprises engage in economic activities within the same market or industry, it is not uncommon for the government to safeguard its interests by limiting the participation and growth of private corporations.<sup>274</sup> In PR, public sector employment increased moderately from 54,00 in 1952 to 65,000 in 1957. However, public employment figures began to increase substantially from 70,000 in 1960 to 118,000 in 1970 and continued to increase well after the 1970s. Since the early 1960s, government employment has steadily increased for both the central and municipal governments, as shown in figure 9.<sup>275</sup>

As an additional comparison, figure 10 summarizes central government employment in terms of its share in total employment and government consumption expenditures in terms of their share in GDP. Figure 10 indicates that government expenditures on consumption relative to Gross Domestic Product increased until 1975 before declining.<sup>276</sup> Nevertheless, the difference between government employment and total employment widened up to the end of the 1970s, when government employment expanded relative to total employment.<sup>277</sup> Collins et al. (2006) suggest that labor standards within public enterprises or reliance on additional resources within government operations have been weakened throughout the 70s as a result of a rise in government jobs as a proportion of total jobs in Puerto Rico. Comparatively, the employment rate in the private sector seems to mirror the inefficiency of the public sector during the same period.

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<sup>272</sup> Davis, Steven J., and Luis Rivera-Batiz. at p.41

<sup>273</sup> Id. at p.28

<sup>274</sup> Id. at p.29

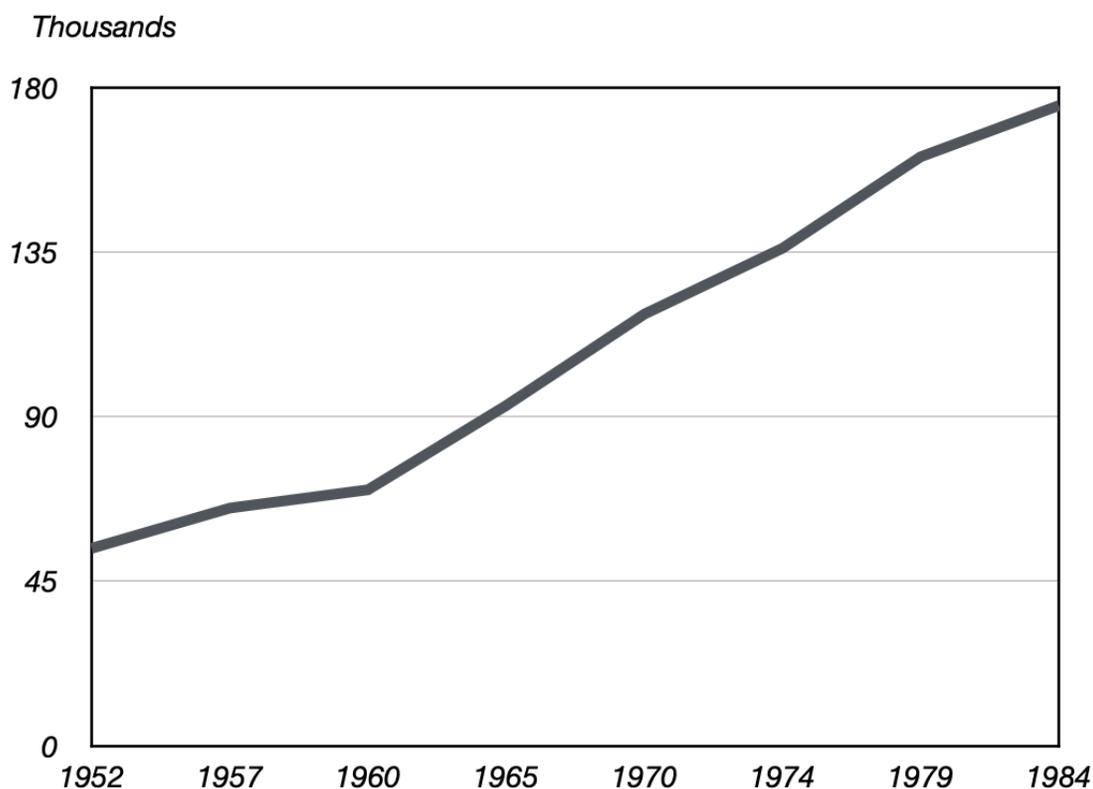
<sup>275</sup> Collins, Susan M., et al., editors. at p.339

<sup>276</sup> Id.

<sup>277</sup> Id.

Davis and Rivera-Batiz (2005) explain that the reason for this is that a significant number of workers with private employment hold positions in sectors that have a significant government employment component. For instance, relevant examples are jobs in healthcare and education institutions, business activity propped up by the Island's financial tax incentives, and other sectors that must contend with significant administrative hurdles.<sup>278</sup>

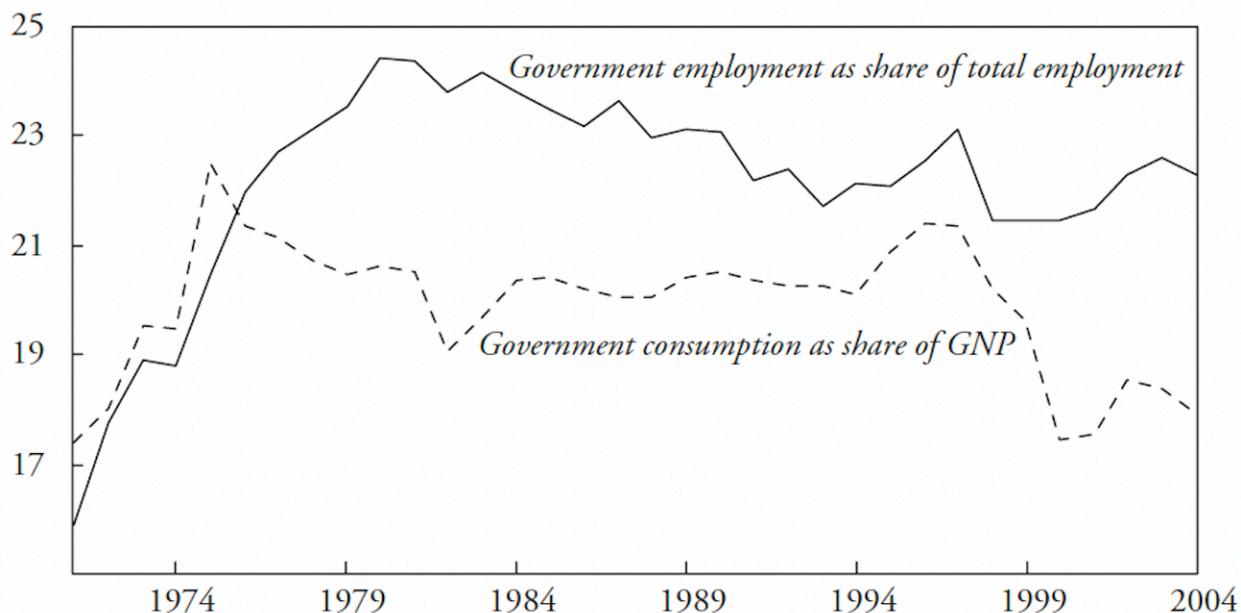
Figure 9 *Central and Municipal Government Employment in Puerto Rico, 1952-1984*



Source: Data from Puerto Rico Department of Labour and Human Resources, *Household Surveys*; Serie Histórica del Empleo, Desempleo y Grupo Trabajador Promedio Año Natural de 1947-1969.

<sup>278</sup> Davis, Steven J., and Luis Rivera-Batiz. at p.6

Figure 10 *Central and Municipal Government Employment and Consumption as Share of Total Employment and GNP, Puerto Rico, Fiscal Years 1971–2004*  
Percent



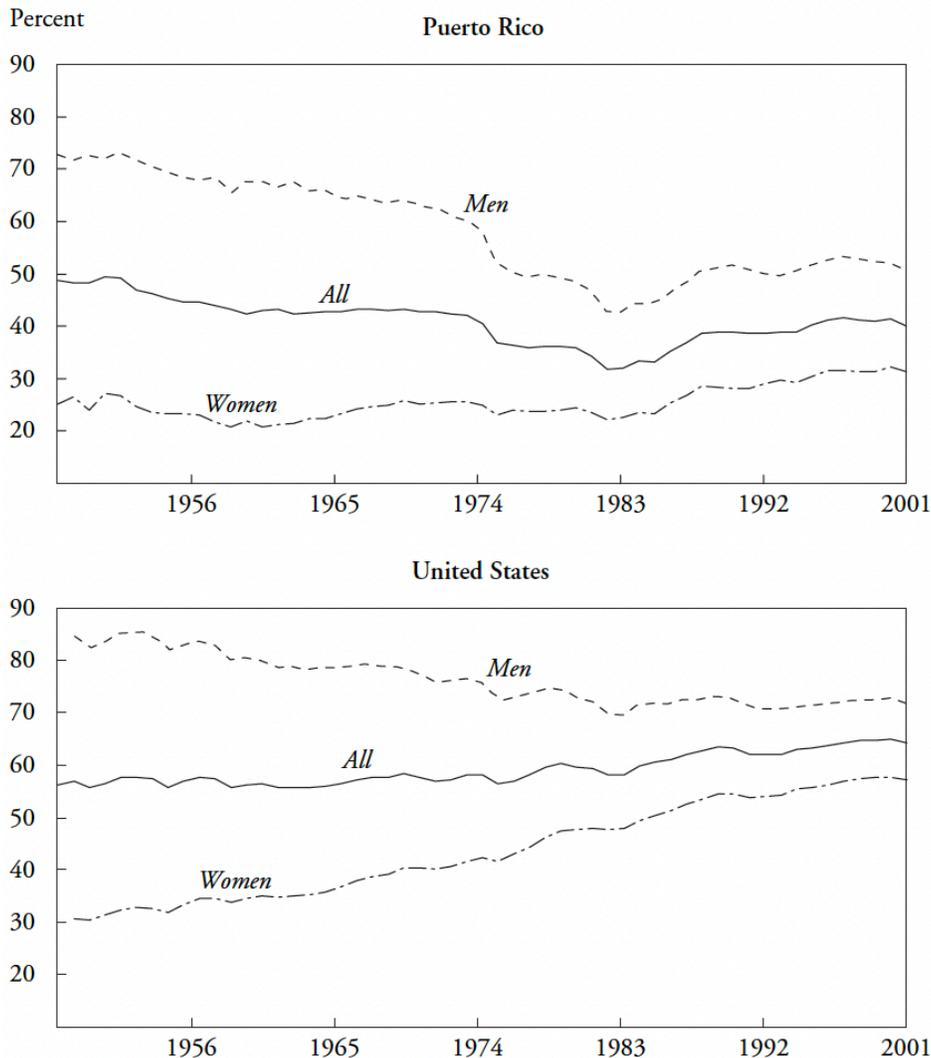
Source: Collins, Susan M., et al., editors. *The Economy of Puerto Rico: Restoring Growth*. Brookings Institution Press, 2006. at p.340

Collins et al. (2006) argue that a decline in public sector productivity could also negatively affect the economy's general performance due to inefficient government functions. Private industry efficiency is reduced under such circumstances due to increased production expenses, and would also affect job growth as a result of having to absorb supplementary expenditures in order to offset poor service provision by the public sector.<sup>279</sup> Figure 11 shows a more pronounced deterioration of the employment rate after 1975, which coincides with the deterioration of government consumption expenditures as a percentage of GNP shown in Figure 10. Providing substandard public services burdens the economy as a whole with increased resource expenditures, which is why private sector productivity will decline.<sup>280</sup> Thus it is likely that public sector inefficiencies possibly affected the performance and growth of PR's local business sector.

<sup>279</sup> Id.

<sup>280</sup> Id. at p.340

Figure 11 *Employment Rate among Workers Sixteen Years and Older, Puerto Rico and the United States, 1947–2001*



Source: Collins, Susan M., et al., editors. *The Economy of Puerto Rico: Restoring Growth*. Brookings Institution Press, 2006. at p.259

### 5.2.3. PR's public sector growth was political in nature and lessened competitive pressures for a robust local economic sector

In particular, between 1968 and 1979 PR's economy experienced its first post WWII economic recession which was defined by severe government budget constraints and heavy inflation.<sup>281</sup> Additionally, the Island's financial condition was further aggravated by a drastic upsurge in government debt as well as persistent erosion of its savings. The government's debt during 1965 totaled approximately 33 percent of GNP and steadily grew during the late 60s; however, during

<sup>281</sup> Caban, Pedro A. at p.574

the early 70s, government debt increased exponentially, topping \$5.7 billion in 1976, which encompassed 76.7 percent of the Island's total GDP.<sup>282</sup> Pedro A. Caban (1989) explains that during this time, the Committee to Study Puerto Rico's Finances warned the PR government that public spending saw more than a twofold increase between 1969 and 1973, while annual spending grew more than 20 percent. Despite these drastic increases, the Island's domestic revenues only grew 13 percent annually; the seriousness of this situation was made clear by the Committee's conclusions stating that such an enormous debt would imperil future economic expansion opportunities for PR.<sup>283</sup>

Public spending skyrocketed during the NPP years (1969-72)—the first time the NPP party acquired power in PR—and slowed significantly after 1973 when the PDP reassumed power in the 1972-1976 years.<sup>284</sup> More crucially, however, these shifting trends within PR's public spending relate directly to alternations in government control between political parties. As a way of gaining support from labor organizations and workers during its first tenure, the NPP party leveraged government funds.<sup>285</sup> Therefore, examining state-organized labor relations allows the opportunity to see how Puerto Rico's change in political party affected the public sector and the economy more broadly. Pedro A. Caban (1989) explains that following the NPP's rise to power after 1968, PR's efforts to promote industrialization were heavily guided by each party's (NPP and PDP) preference and stance on the Islands' political status. The PNP exploited state resources to further its political support with the Island's unions and achieve its plans to stimulate domestic economic development during its inaugural term in power (1969 to 1972).<sup>286</sup> After two and half decades of uninterrupted power for the PDP in PR, the NPP won the 1969 election. The NPP became the first party to successfully challenge the PDP, establishing a new phase in the country's political development. Therefore, examining state-organized labor relations allows the opportunity to see how Puerto Rico's internal political dynamics affected the public sector and ultimately created disincentives for a robust local business sector.

The NPP's initial support coalition was made up of impoverished metropolitan residents and working-class people but their appeals also resonated with more affluent classes based in cities. Like the PDP during the 40s, NPP promoted a discourse that found resonance among the Island's most financially vulnerable, who felt that the industrial development project did little for their economic well-being. Pedro A. Caban (1989) suggests that the NPP was receptive to these feelings among Puerto Ricans and leveraged the Island's worsening economic disparities by offering equal economic opportunities through its own capitalist expansion project by way of statehood. Their discourses reflected the notion that statehood (PR becoming a US State) would significantly augment both economic opportunities for PR and stability in society in order to revitalize the Islands' economic expansion efforts. Furthermore, the NPP's discussions effectively

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<sup>282</sup> Id.

<sup>283</sup> Id.

<sup>284</sup> Id. at p.575

<sup>285</sup> Id. at p.580

<sup>286</sup> Id.

equated their pro-statehood agenda as the only sure way to address PR's financial and political plights.<sup>287</sup> Furthermore, the NPP's discourse effectively equated its pro-statehood agenda as the only way to address PR's political and financial plight; while its government program, which utilized public resources to build consensus, aimed to prepare the public for statehood referendums.<sup>288</sup> Towards these ends, the NPP encouraged union formation among government workers on the Island in order to build a favorable climate of support and illustrate its pro-labor movement stance. The NPP's initiatives to reduce unemployment, including the creation of public sector jobs, the increase in public servant aid, the promotion of unionization, advocacy for minimum wage laws, and improved bargaining power in minimum wage disputes, all contributed to the NPP's political success.<sup>289</sup>

PDP members, on the other hand, believed that it was imperative to achieve greater levels of local autonomy in Puerto Rico to address or resolve the island's economic malaise and that the most effective way to achieve this goal was by modifying Commonwealth status.<sup>290</sup> Thus, the PDP now argued for an "enhanced Commonwealth" to ensure improved local maneuverability and control over the Island economy. As Pedro A. Caban (1989) explains, during this period, the PDP articulated a discourse aimed at reformulating Commonwealth relations with the United States, optimizing government finances, and advocating for a "vision of socially progressive industrial expansion" in order to restore the PDP party's legitimacy after financial difficulties for PR. Ultimately, differing interpretations of what PR's future political status should be also produced differing interpretations by PR's political parties on how to address the Island's financial and political crisis.<sup>291</sup> The change in government expenditures, especially within the public sector, responds to change in party control of the state. Specifically, we can see how table 5 indicates governmental expenditures rose from 1964 to 1974. Table 5 shows how expenditure categories reached their highest growth rates in 1968-70 and 1970-71 while decreasing sharply by 1974. The increase in government expenditures corresponded with the NPP taking control of the state, while the sharp reduction in expenditures corresponded with the PDP party resuming control of the state. A further 50 percent rise in public sector jobs occurred between 1969 and 1973, and by 1976, public sector employment expenses accounted for more than 70 percent of government revenue.<sup>292</sup>

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<sup>287</sup> Id.

<sup>288</sup> Id. at p.580

<sup>289</sup> Id.

<sup>290</sup> Id. at p.578

<sup>291</sup> Id. at p.578

<sup>292</sup> Id. at p.577

Table 5 Growth Rates of Government Expenditure Categories (annual %)

	1964-69 (PPD)	1969-70 (PNP)	1971-72 (PNP)	1972-73 (PNP-PPD)	1973-74 PPD	1969-74
Salaries and wages	13.0	20.5	20.7	17.5	6.7	16.8
Purchases, not related to employment (net of sales)	12.0	28.7	17.6	21.5	13.6	20.7
Current expenditure on goods and services	13.2	21.0	22.0	21.8	11.6	18.6
Spending on permanent improvements	10.2	34.1	9.2	4.5	-1.9	15.8
Transfer payments	14.6	28.2	24.0	13.1	10.3	20.1
Total	12.2	23.3	19.6	18.3	9.2	18.6

Source: Junta de Planificación, Informe Económico al Gobernador, 1976. p. 49

In its report, the Committee to Study Puerto Rico's Finance argues that these NPP-prompted increases in government employee salaries would impede the government's capacity to perform critical public functions and significantly reduce its efficiency.<sup>293</sup> As a consequence of increased government expenditures, the Island's internal surplus of more than \$30 million in 1969 turned to an internal deficit of \$350 million by the end of 1973.<sup>294</sup> Such a situation entailed the public sector would eventually have to enact austerity measures to correct the deficit, thus putting public services at risk. Consequently, in order to create a working budgetary balance, the Committee to Study Puerto Rico's Finance recommended curtailing government spending.<sup>295</sup>

The Committee stressed that the Island's financing needs in the public sector rose from 3 percent to 12 percent of PR's GNP between 1969 and 1974.<sup>296</sup> More importantly, it stressed that failure to correct this situation meant that Puerto Rico would continue with an economy without a surplus that would depend considerably on foreign capital and that would be limited in its

<sup>293</sup> Id. at p.580

<sup>294</sup> Junta de Planificación, Informe Económico al Gobernador, 1976. at p.46

<sup>295</sup> Caban, Pedro A. at p.577

<sup>296</sup> Junta de Planificación, Informe Económico al Gobernador, 1976. at p.50

decisions by the intervention of creditors.<sup>297</sup> However, the way in which state power and the public sector were utilized for political gain illustrates how politically motivated actions may have affected economic performances in PR. More specifically, the use of state resources during the 70s serves as an example of how PR's internal political dynamics and political calculations meant to increase popular support negatively affected the state's budget and the economy more generally. Moreover, as previously mentioned, public sector inefficiencies possibly affect the private sector because it has to incur additional costs to compensate for poor government services. Therefore, it is likely that PR's politically driven public sector growth during the late 60s to mid-70s possibly represented a disincentive towards the flourishing of PR's local business sector. However, it must be stressed that such a statement must be, at best, taken with caution and only as a plausible. The limited data on Puerto Rico's private sector from the 50s to early 70s makes any such statement doubtful simply due to the fact that private sector measurements were added to PR's annual economic reports during the early 70s. Additionally, early measurements of the private sector usually included the manufacturing sector as well, which significantly complicates the task of simply focusing on the local business and entrepreneurial class in PR.

### 5.3. Tourism Sector

The Tourism sector has been affected by politicization in response to sentiments of culture preservation. Such sentiments drove the desire to limit the growth of the tourism sector in order to “protect” Puerto Rican culture from outside influence. This study's Critical Juncture helps explain how and why tourism's growth was purposely curtailed following the enactment of the PR Commonwealth.

#### 5.3.1. Data on PR tourism compared to other comparable tourist destinations

Global tourism, defined as the number of tourists arriving each year, increased by 115 percent between 1995-2014, representing a rise of 4.1 percent per year on average.<sup>298</sup> During the same period, tourist arrivals in the Dominican Republic—PR's nearest Caribbean counterpart—rose 189 percent, an average annual growth of 5.75 percent (see Figure 12).<sup>299</sup> PR, however, only saw a slight increase of approximately 4 percent in the number of tourists arriving during 2014, compared to the 1995 figures, while the best-performing year within this timeframe (2016) only saw an upsurge in arrivals of 19 percent compared to 1995.<sup>300</sup> However, we can see that PR fared poorly when comparing PR's tourism figures to those of the Dominican Republic during this time frame. In contrast, the Dominican Republic saw an increase of 123 percent in the number of tourist arrivals for the years 1995 to 2016, while the number of international arrivals experienced

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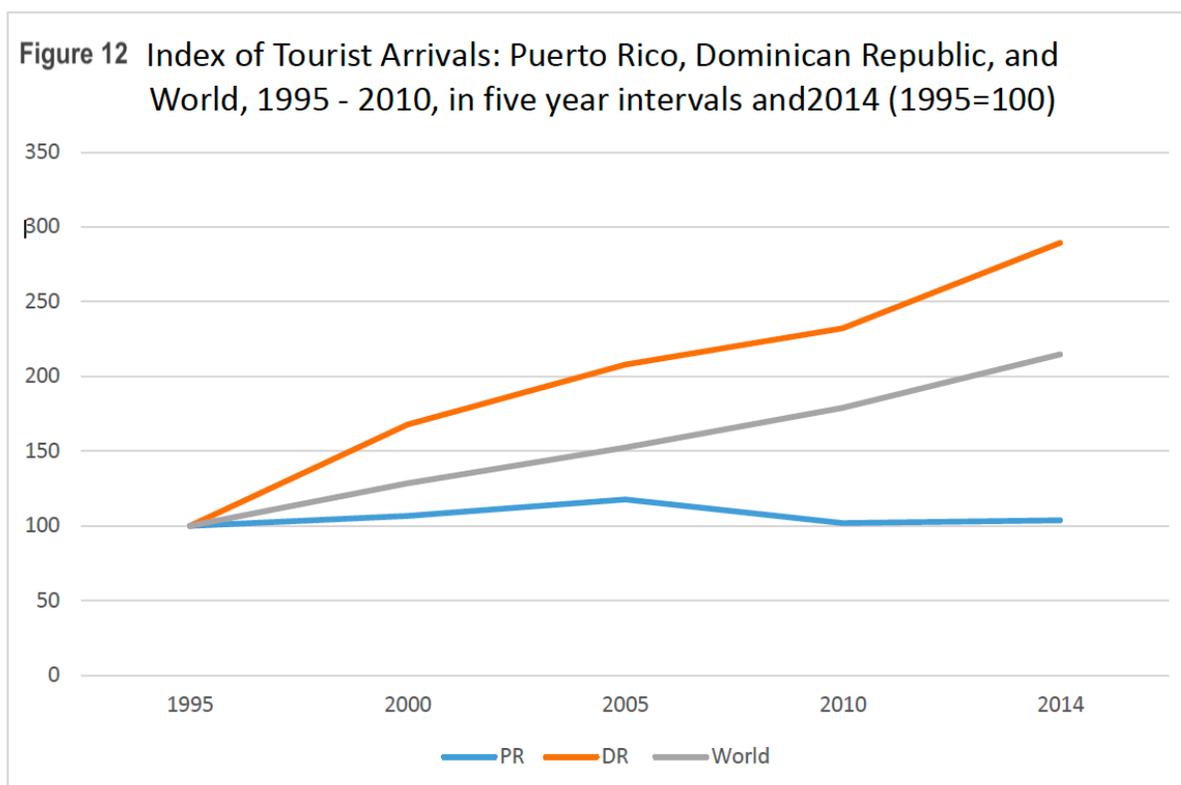
<sup>297</sup> Id.

<sup>298</sup> Jenkins, Glenn P., et al., at p.10

<sup>299</sup> Id. at p.11

<sup>300</sup> Id.

a 61 percent jump.<sup>301</sup> There is a direct correlation between tourist-related arrivals and economic gains, or a lack thereof, in the case of PR. For instance, when looking at figures collected by The World Bank on "inbound tourism expenditures" for the years 2008 and 2020, we can see how the number of revenue generated due to tourism-related spending increased from 4.2 billion to 7.5 billion during this period for the Dominican Republic, while PR actually saw a decrease from 3.5 billion to 2.9 billion (see Figure 13).<sup>302</sup>



Source: Jenkins, Glenn P., et al. Puerto Rico: Insights into Economic Development Policy, Volume V: Action from San Juan. Development Discussion Papers 2016-15, JDI Executive Programs, 2016. at p.11

PR's support for tourism has also continued to be lacking. In the period 2010-2015, the PR economy suffered a significant downturn, which resulted in a drop of 5.3 percent in fiscal spending on tourism, compared with a 7.3 percent fall from 2009 to 2010.<sup>303</sup> This lack of funding for PR's tourism industry predates the Island's financial troubles throughout the 2010s, and a brief comparative analysis with the Dominican Republic makes this point more evident. State financial support for the tourism sector in PR and the Dominican Republic was comparable for

<sup>301</sup> Id.

<sup>302</sup> Id. at p.11

<sup>303</sup> Id. at p.12

both nations as of 1995; however, ten years later, Dominican Republic tourism expenditures exceeded PR expenditures by 20 percent and, later, 75 percent during 2010.<sup>304</sup> These trends continued as time passed, and as PR's national expenditures for tourism continued to shrink, that of the Dominican Republic's saw a total increase of 36 percent from 2010-15; while the entire Caribbean Region experienced a 19 percent jump in expenditures over the same time.



### 5.3.2. Overview of the PR Government's Lack of Support for Tourism

PR as a tourist destination has beaches, geography, and weather remarkably similar to other Caribbean islands, while also enjoying the added benefits—transportation, currency, and security—of close integration with the US. Therefore, why has such a potentially promising sector been such a small part PR's overall economy comprising only 5 to 10 percent of the Island's GDP? Puerto Rico's lackluster tourism figures can be attributed to a number of factors, but insufficient support from Puerto Rican authorities is undoubtedly one of the main contributing factors.<sup>305</sup> Reasons behind Puerto Rico tourism's limited economic performance are said to derive from the Island's incapability of successfully modifying its economic development strategy and the ideology behind it that produced PR's golden age from the 50s to the 60. Moreover, and more

<sup>304</sup> Id.

<sup>305</sup> Id.

specifically, the Island's incapability to free itself from economic dependence on manufacturing as well as the commitment towards the belief that industrialization was imperative for PR's prosperity.<sup>306</sup> During the Post-World War II period, many of the world's developing countries developed an extensive focus on manufacturing, believing that rapid economic expansion would then follow; in PR, such views led towards the Island's own industrial development project known as "Operation Bootstrap."

Arguably, the initial emphasis on manufacturing and the resulting over-dependence on this economic sector resulted from path-dependent processes. Because PR could have chosen another economic development path yet, it decided to choose industrialization dependent on tax incentives as its main economic endeavor. Operation Bootstrap (PR's Industrialist development strategy) was synonymous with the creation of the 1952 Commonwealth status of PR. Therefore, by classifying the year 1952 Commonwealth status as our Critical Juncture (or a marked moment of profound change), we are effectively also classifying Operation Bootstrap as a critical juncture—or at minimum, as a defining characteristic. With Operation Bootstrap, PR's cheap labor, ease of access to US consumers, and favorable financial subsidies promoted by US leaders and PR, a substantial amount of manufacturing capital flocked to the Island.<sup>307</sup> While from one angle, during the late 40s to mid-70s, multinational presence and foreign capital helped to improve the Island's living standards dramatically and led to the resulting economic shift from farming to industry. From another angle, the extreme focus on manufacturing seems to have taken attention away from other potentially valuable economic sectors—including tourism.

Principally, it seems that colonialist-driven forces contributed significantly to the neglect of the tourism sector. Previous to the enactment of the PR Commonwealth—where PR's governors were neither Puerto Rican nor democratically elected—the Americans pushed to make tourism PR's economic backbone. According to Dennis Merrill (2001), despite American perceptions that Puerto Rican tourism was the cornerstone of its economic expansion efforts, Puerto Rico's government, through careful management, considered tourism should be a minor component of the island's economy, reaching 5-10 percent of the Island's GDP. Compared to its Caribbean counterparts like the Bahamas and U.S. Virgin Islands, whose economies were almost entirely on tourism (about 80 percent of state revenue), PR's tourism goals were far different.<sup>308</sup> The Puerto Rico government purposely decided to curtail tourism to safeguard Puerto Rican culture from "undesirable" colonial influence. The main concern was that if tourism was not actively controlled, it would develop in a way that would undermine Puerto Rican values. Such efforts responded to the PR government's desire to avoid the development of a "fast money" type of tourism characterized by overly cheap tourist destinations or superficial tourist facilities. In so

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<sup>306</sup> Id. at p.13

<sup>307</sup> Id.

<sup>308</sup> Merrill, Dennis. "Negotiating Cold War Paradise: US Tourism, Economic Planning, and Cultural Modernity in Twentieth-Century Puerto Rico." *Diplomatic History*, vol. 25, no. 2, 2001, at p.190

doing, PR deviated both from the US's preference and the economic paths of other comparable Caribbean Islands.

Already during the 1940s, the PDP was following popular sentiments and denouncing US-led tourism initiatives claiming that such schemes served only to conceal PR's socio-economic hardships.<sup>309</sup> The PDP party and PR's first locally elected governor (Muños Marín) dominated the Island's politics for close to 30 years, allowing them to assume close domestic control over PR's tourism sector. PR tourism was thus actively curtailed and closely monitored after local leaders recognized apathy toward tourism as a political topic with electoral potential that would ensure the PDP party's popularity within PR.<sup>310</sup> The principal policy that would set the tone for PR's cultural protectionist efforts was the Preservation of a Native Style of Tourism. Although nowhere clearly spelled out, such a policy was characterized as a "gentlemen's agreement" type policy initiated in the early 1950s with the explicit goal of preventing "another Miami Beach"—importation of overly cheap commercial enterprises. These attitudes came from the indignation felt by Puerto Ricans during the US's colonial rule where the US directly governed the Island—before the enactment of the Commonwealth of PR.

As a federally-designated governor between 1934 and 1939, Blanton Winship believed PR's tourism sector would serve as the foundation for the Island's recovery efforts following the Great Depression; and considered it an essential component of US initiatives aimed at expanding PR's economy.<sup>311</sup> In order to improve the Island's transportation networks and tourism infrastructure, he drew inspiration from comparable efforts in Bermuda and Florida. Winship, recognizing the power of imagery, publicity, and culturally-relevant visuals, commissioned a US advertising agency to market Puerto Rico as a tourist destination and print a tourist directory featuring its seashores, tropical weather, as well as golfing, and water-sporting opportunities.<sup>312</sup> However, such initiatives were not well received in PR because they depicted the Island and its people patronizingly, describing it as a desperately poor nation where its humble inhabitants eagerly awaited the prosperity their patrons from the Mainland would bring.<sup>313</sup> Specifically, such initiatives reinforced common gender-related stereotypes of the time; while advertisements, for instance, headlined "beautiful señoritas at the canto de Piedras," prominently displayed good-looking young women pictured in bathing suits along the Island's coastline.<sup>314</sup>

Furthermore, the majority of tourism articles and tourism-related media during this time presented an unflattering array of perspectives that were not conducive to cultural exchange

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<sup>309</sup> Id at p.189

<sup>310</sup> Id.

<sup>311</sup> Id. at p.186

<sup>312</sup> Id.

<sup>313</sup> Id.

<sup>314</sup> Id.

opportunities or the development of shared identities between PR and the US.<sup>315</sup> At that time, travel publications condemned PR's poverty, poor education, and extensive illnesses, describing locals as submissive, desperate, and living in an alien world ignorant of the comforts and progress of modern society.<sup>316</sup> Influenced by the Jim Crow years, American tourism authors generally depicted the people of PR as being a "mongrel race" and critiqued their Spanish customs of "mañana" as being antagonistic towards US-led ambitions for democratization and social advancement.<sup>317</sup> Those who supported Commonwealth were not pleased with all of these events, especially Windship's promotional efforts for PR tourism which presented PR's character as one defined by vacation-oriented and entertainment-oriented activities.<sup>318</sup> And thus, tourism largely became associated with colonialism and US subjugation. The PDP was receptive to these sentiments within PR and leveraged anti-tourism within their early discourses. The PDP was deeply worried about the future growth and importance of tourism in the PR economy and emphasized through their discourses "that tourism should never become the primary economic activity of Puerto Rico."<sup>319</sup> Therefore, with our Critical Juncture, the creation of the Commonwealth during the 50's offered the opportunity for PR's local leaders—the PDP more specifically—to develop the tourism sector in a highly controlled manner through a protectionist policy to safeguard PR culture and avoid the importation of excessively cheap commercial tourists facilities. However, this pursuit led to policies focusing on cultural considerations rather than pursuing long-term economic benefits for PR, implying that from an economically-beneficial perspective, such policy objectives had the wrong priorities.

### 5.3.3. Data and arguments on how PR tourism was affected by internal politics characterized by sentiments of culture preservation.

It is crucial, however, to mention that PR tourism was by no means non-existent during the early 50s and was actually promoted to some extent. Of course, the main difference would be that PR Tourism would not be allowed to reach the level of economic growth and importance it had in other Caribbean countries—where tourism was usually among the main economic activities. Regardless, the Commonwealth government initially celebrated the travel industry as a beneficial contribution to the economy's expansion and a positive image booster for the Commonwealth.<sup>320</sup> For instance, by the early 50s, the Commonwealth government invested 7.4 million dollars in

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<sup>315</sup> Id. at p.185

<sup>316</sup> Id.

<sup>317</sup> Id.

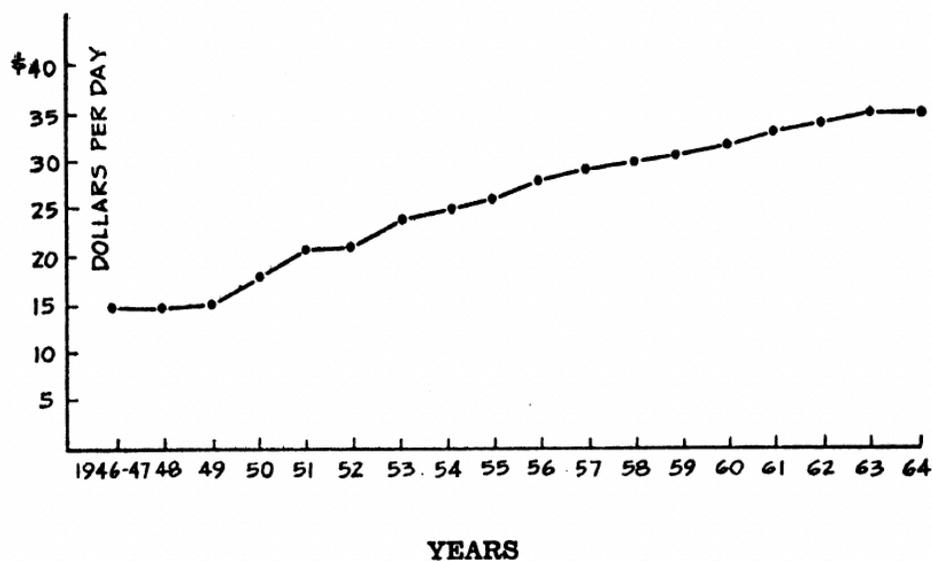
<sup>318</sup> Id. at p.188

<sup>319</sup> Mings, Robert C. "Puerto Rico And Tourism: The Struggle for Cultural Autonomy among Developing Nations: The Case of Puerto Rico and Its Tourist Industry." *Caribbean Quarterly*, vol. 14, no. 3, University of the West Indies, 1968. at p. 9

<sup>320</sup> Merrill, Dennis. at p.203

PR's modern luxury hotels.<sup>321</sup> Such actions were designated to attract international tourists and provide accommodations for potential foreign investors. However, by the early 1960s, private investment had begun to outstrip government investment, and a very dramatic growth spiral was underway (see Figure 14).<sup>322</sup> With the growth of tourism and the arrival of visitors from abroad reaching all corners of PR, signaling that tourism would most likely continue expanding and prospering, skepticism and criticism of the industry began to intensify. As a response to these developments, notions of culture preservation also intensified when tourism was believed to pose a risk to Puerto Ricans' district culture.

**FIGURE 14 NON-RESIDENT TOURIST DAYS**  
**1947 — 1964.**



Source: Mings, Robert C. "Puerto Rico And Tourism: The Struggle for Cultural Autonomy among Developing Nations: The Case of Puerto Rico and Its Tourist Industry." *Caribbean Quarterly*, vol. 14, no. 3, University of the West Indies, 1968. at p.8

The development of new tourist facilities and resorts in the Island's capital redefined PR's visual appearance and increased North American presence, thereby introducing contemporary consumeristic behaviors that challenged socioeconomic, ethnic-racial, and sexual dynamics

<sup>321</sup> Mings, Robert C. at p.7

<sup>322</sup> Id. at p.8

within PR, leading to substantial concerns around cultural uniqueness.<sup>323</sup> Part of this tension around culture preservation arose from racial considerations. Regarding tourism's potential cultural impacts on PR, almost no other cultural unpleasantries compared to racism in terms of how much concern they produced within the local Island population. <sup>324</sup>However, Puerto Ricans had experienced Jim Crow ideals when the US took over the Island as a colonial possession, and such rules were then applied to those serving the US military; the advent of tourism seemed to raise the possibility of spreading Jim Crow throughout the Island.<sup>325</sup> In the early 1950s, when rumors circulated that the Caribe Hilton—one of PR's latest hotels at the time—would implement the color bar, PR news outlets alluded that the hotel's opening would have severe cultural implications for Puerto Rico. News and stories regularly circulated that other tourism facilities had implemented such restrictions on tourists, despite these measures never being fully implemented. For instance, in the mid-1950s, Earl Parker Hanson, an American journalist, documented that even though the majority of San Juan's tourist accommodations accepted non-white customers into their dining rooms, a number of resort beaches refused admission to African-American beachgoers and bathers.<sup>326</sup> Consequently, as PR tourism began to grow through the mid-50s to early 60s, critics feared that further tourism growth would negatively impact the Island's racial relations.

Racial considerations were only one of many irritants. Notions of culture preservation also responded to disparities in the economic status of individuals. In spite of the progress produced by the creation of PR's Commonwealth status, the newly acquired status failed to subdue the Island's sentiments of continued subjugation to US colonial power; thus, reliance on US-led tourism as a driver for economic expansion was unsurprisingly met with suspicion.<sup>327</sup> Even though Operation Bootstrap was generally regarded as a success, a significant number of the people still lived in poverty, and although the local government enjoyed extensive control over PR's industry and economic development strategy, the US still exerted a heavy economic influence over PR. Additionally, the vast majority of US tourists arriving in P.R. were exceptionally wealthy, primarily from east US states, with salaries that ranked them among the wealthiest Americans, in stark contrast to locals' incomes.<sup>328</sup> Tourists showed a distinct lack of concern for the Spanish language, which fueled Island-wide frustration and re-ignited the resentment previously felt when the US directly ruled over PR and had foisted upon the local population English as the official language of instruction and governance.<sup>329</sup> With the creation of

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<sup>323</sup> Merrill, Dennis. at p.203

<sup>324</sup> Id. at p.206

<sup>325</sup> Id.

<sup>326</sup> Id.

<sup>327</sup> Id. at p.203

<sup>328</sup> Id.

<sup>329</sup> Id. at p.204

the Commonwealth, Spanish returned to being the national language; however, the growth of the travel industry increased the possibility of diminishing its dominant position within PR. Thus, as the number of foreign visitors increased, allegations of “cultural imperialism” became increasingly prevalent within PR.<sup>330</sup> An editorial published during the late 50s by Professor Colberg of the University of Puerto Rico reflected concerns expressed largely by others, who pointed out and warned: “Through ‘tourist mania’ we are falling prey to foreign speculators. Puerto Rico may become paradise for visiting tourists, but alien to native peoples.”<sup>331</sup>

Attitudes around culture preservation guided the Commonwealth government’s approach and policy choices toward developing the PR tourism industry. In purely economic terms, however, PR’s policy choices had the wrong priorities because it was clear that the main focal point was combating cultural colonialism instead of developing economic benefits around tourism. Following this direction, the PR government sought to control “undesirable” outside influence by promoting the Preservation of a Native Style of Tourism during the early 1950s. The establishment and preservation of a Native Style of Tourism is a principle that originated in national pride, a quality easily observable among many Puerto Ricans.<sup>332</sup> Such a policy was also the product of the desire to avoid full colonization by the US. The main concern was that tourism would develop too artificially and be alien to the native way of life. The government supported this concept through the early 50s to mid-70s by way of restrictions and policies by the Puerto Rico Planning Board and recommendations by the Department of Tourism. The Planning Board and the Department of Tourism countered the establishment of undesirable facilities by directly restricting building permits, endowments for tax emanations, government loans, and entry on the officially approved accommodation listing.<sup>333</sup> Therefore, when a prospective developer produced a blueprint or plan that seemed too ostentatious, the PR government would advise how to alter the project to make it more amenable to Puerto Rican tastes. Generally speaking, the Commonwealth government concentrated on preventing “another Miami Beach,” meaning importing overly cheap, generalized commercial enterprises that would dilute PR culture. Government discourses regularly critiqued the “Miami Beach style tourism,” where the PDP stated: “Tourism should not convert San Juan into another Miami Beach. It would be dangerous for the whole island. The Planning Board should act to prevent the construction of a concentration of purely superficial tourist facilities anywhere in Puerto Rico.”<sup>334</sup>

This prevailing anti-Miami Beach attitude that underpinned PR’s Preservation of a Native Style of Tourism policy looms from the abundance of tourist-orientated amusements in Miami, designed primarily to divert tourists—without regard to their utility or impact on local

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<sup>330</sup> Id. at p.208

<sup>331</sup> Mings, Robert C. at p.9

<sup>332</sup> Id. at p.8

<sup>333</sup> Id. at p.13

<sup>334</sup> Id. at p.9

residents.<sup>335</sup> Some examples of the most offensive type of tourist trappings deplored by critical Puerto Ricans and the government were shooting galleries, penny arcades, morally questionable female stage shows, junky carnivals, and such base attractions as monster lands, cheap gingerbread villages, wax museums, etc.<sup>336</sup> The government and critics argued that, in aggregate, these attractions produced a synthetic, gaudy, tawdry type of atmosphere, which the Island has traditionally not had. Thus the government felt that such developments would contribute very little, if anything, to the Puerto Rican people and might actually endanger or undermine Puerto Rican values.<sup>337</sup> Besides fears of the decaying of PR culture, critics also agreed that it was demeaning and servile for a large sector of the population to be subjected to such alien endeavors as catering to the fickle whims of foreigners in order to make a living. Such feelings were expressed by the PDP stating: "...in other words, we should be ourselves and put our best foot forward, but we should not borrow a wooden leg and try to pass it off as our own just to please the tourists".<sup>338</sup>

Following sentiments of PR culture preservation, by way of the Preservation of a Native Style of Tourism policy in the early 50s, the government actively limited the number of such tourist attractions. Table 6 shows how by 1963, some types of establishments frequently attacked by the PDP and by critical Puerto Ricans—commonly associated with cheap, over-commercialized tourism—compared next to those in Miami. Table 6 indicates that PR had far fewer cheap tourist-orientated attractions than might have been expected for a tourist attraction of its size. If it were not for the government policies and restrictions that deterred the types of establishments listed in Table 6, a larger number of them would have most likely developed in Puerto Rico. Based on such observations, it is clear that PR during the early 60s lacked the grotesque "fast-money" type of tourism that had developed so commonly in other places, which attracted a large number of visitors. It must be stressed, however, that although such a policy did indeed restrict the number of undesirable facilities in PR, it arguably had the wrong priority—at least in economic terms. Such a policy was misguided because it did not respond to PR's economic necessities; instead, it mainly responded to limiting colonial cultural influence on the Island irrespective of the long-term economic consequences.

The PR government's early 1950 policy for the Preservation of a Native Style of Tourism that sought to limit potentially "threatening" tourist projects stood in stark contrast to measures adopted by similar Caribbean Islands. Such policy also affected PR's creation of facilities to accommodate tourists—measured in hotel room availability—as a consequence of the government's close oversight in the construction of hotels and preference towards larger and more costly projects. The Bahamas stands as a useful comparison because, in 1949, the Bahamian government passed the Hotel Encouragement Act (amended in 1954), intending to

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<sup>335</sup> Id. at p.10

<sup>336</sup> Id.

<sup>337</sup> Id.

<sup>338</sup> Id.

stimulate the construction of hotels by offering a refund of customs duties and other similar concessions.<sup>339</sup> Here we have two Caribbean Islands that adopted diverging approaches towards tourism facilities during the early 50s. Thus, a brief comparison between the two Caribbean countries can help us better observe the effect of PR's cultural protectionist policies on tourism.

**Table 6**

**Some Common Commercial Entertainment Found at Resort Areas**

<b>Establishments</b>	<b>Miami</b>	<b>San Juan</b>
<b>Dance Halls, Studios, Schools, including Children's</b>	<b>897</b>	<b>8</b>
<b>Bowling, Billards and Pool</b>	<b>62</b>	<b>19</b>
<b>Race track operations, including Racing Stables</b>	<b>98</b>	<b>N/L (none listed)</b>
<b>Amusement Parks, Kiddie Parks, Theme Parks</b>	<b>5</b>	<b>N/L</b>
<b>Concession Operator of Amusement Devices, Rides</b>	<b>58</b>	<b>N/L</b>
<b>Carnivals and Circuses</b>	<b>6</b>	<b>N/L</b>
<b>Tourist Attractions, Natural Wonders</b>	<b>7</b>	<b>N/L</b>
<b>Coin-operated Amusement Devices</b>	<b>29</b>	<b>N/L</b>
<b>Turkish Baths, Massage Reducing Salons</b>	<b>79</b>	<b>N/L</b>
<b>Misc. Commercial Amusements</b>	<b>211</b>	<b>77</b>

**Source: Mings, Robert C. "Puerto Rico And Tourism: The Struggle for Cultural Autonomy among Developing Nations: The Case of Puerto Rico and Its Tourist Industry." Caribbean Quarterly, vol. 14, no. 3, University of the West Indies, 1968. at p.14**

By 1953 in San Juan, there were only six hotels of substantial size with a total of 900 rooms and a few smaller transient hotels and apartment buildings with 255 rooms.<sup>340</sup> In addition, there were 250 additional rooms available in 8 hotels scattered throughout the PR bringing the total to 1,400 rooms by 1953.<sup>341</sup> Throughout the 50s, growth rates in hotel room availability in PR were modest, and by 1960 there were only 3,253 rooms available.<sup>342</sup> In contrast, by 1960, there were

<sup>339</sup> "The History of The Ministry of Tourism." *Tourism Today*, Bahamas Ministry of Tourism, 26 Mar. 2015.

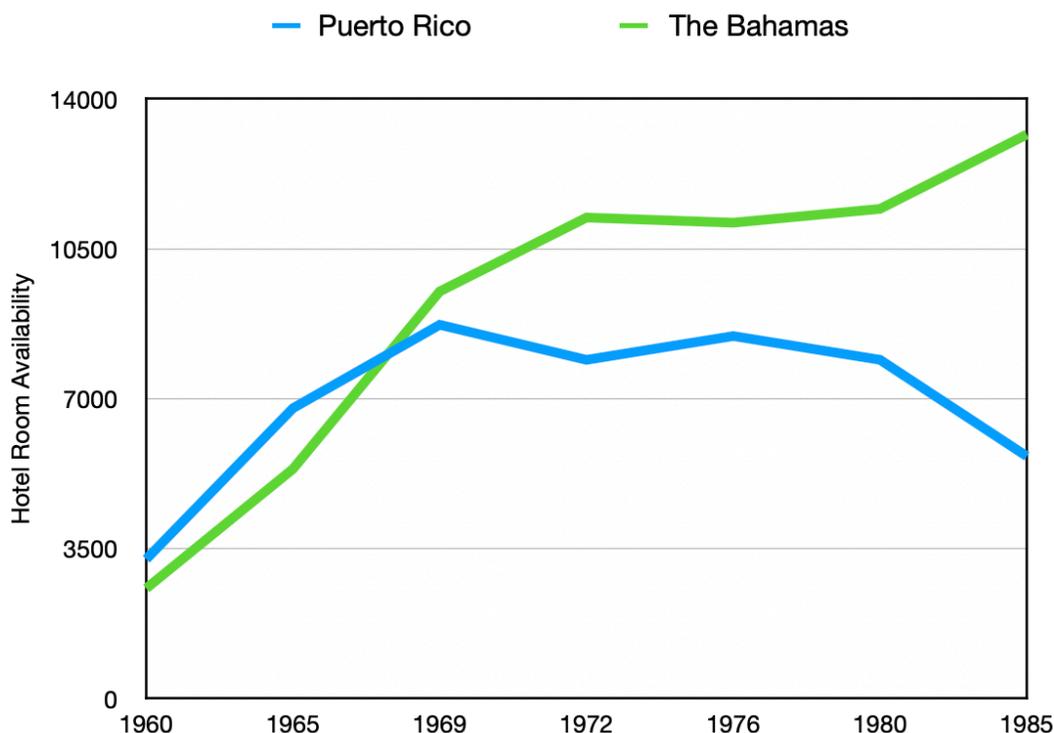
<sup>340</sup> Junta de Planificación, Informe Económico al Gobernador, 1953. at p.79

<sup>341</sup> Id.

<sup>342</sup> Junta de Planificación, Informe Económico al Gobernador, 1961. at p.25

fewer hotel rooms in The Bahamas at only 2,570.<sup>343</sup> However, after the 60s Bahamian hotel room availability increased significantly while PR's only continued to increase modestly. Figure 15 shows how despite PR having more hotel room availability than The Bahamas by 1960, hotel room creation in PR was modest and began to diminish after 1969, while The Bahamas continued an upward trend. By 1972 The Bahamas had substantially surpassed PR's hotel room availabilities with 11,227 compared to PR's 7,906 available hotel rooms.<sup>344</sup> The Bahamian creation of hotel rooms for tourists continued to increase well after the 70s, while inversely, PR showed a decrease in room availability after the late 70s. Such figures indicate PR's growth in the creation of hotel room availability lagged behind and stands in contrast to other comparable tourist destinations in the Caribbean region.

Figure 15 *Hotel Room Availability, Puerto Rico and The Bahamas, 1960-1985*



Source: Data from Junta de Planificación, Informe Económico al Gobernador, years 1961, 1966, 1985; Bahamas Ministry of Tourism. The Research & Statistics Dept, 2020, pp. 1-2, *Hotel Rooms in The Islands of The Bahamas 1967-2020*.

<sup>343</sup> Ramsaran, Ramesh. "Tourism in the Economy of the Bahamas." *Caribbean Studies*, vol. 19, no. 1/2, 1979. at p.77

<sup>344</sup> Ramsaran, Ramesh. at p.77; Junta de Planificación, Informe Económico al Gobernador, 1985. at p.110

Further responding to notions of culture preservation, the PR government also sought to develop a tourist industry with a wide range of prices.<sup>345</sup> The logic behind such efforts was that a larger and more culturally diverse market (i.e., including teachers, students, office workers; in addition to upper income visitors) could be reached if an adequate supply of moderately-priced facilities were made available.<sup>346</sup> The government and those in favor of providing vacation facilities for middle and lower-income families also claimed that cultural exchange possibilities would be greater if a wider segment of foreign society were represented.<sup>347</sup> The intention here would be to provide more options for lower-income tourists while avoiding overly cheap and generic facilities associated with the “Miami Beach” style tourism. Government efforts to develop moderately-priced facilities [for foreign tourists] included a persuasion-promotion policy by the Department of Tourism and a similar policy by the government lending institutions: The Puerto Rico Industrial Development Company (Pridco) and the government Development Bank. These objectives, however, were not given the highest priority. Government support for medium and lower-cost facilities was mainly done through loans, but not to the same extent as more profitable and less risky luxury facilities. During the 50s, Pridco hotel loans totaled 3.1 million dollars for twenty-four separate hotel and guest house projects. However, four loans totaling 2.3 million dollars comprised 73.6 percent of this amount; thus, relatively little was left to be distributed among less costly projects.<sup>348</sup> Consequently, such half-hearted efforts were not conducive to creating lower-cost options within PR’s tourism sector. Table 7 shows that average room rates during the early 60s in Puerto Rico exceeded that of Florida by approximately 20 percent.<sup>349</sup>

**Table 7 Average Room Rates**

	<b>United States Average</b>				
	<b>Puerto Rico</b>	<b>Florida</b>	<b>Under 500 Rooms</b>	<b>Over 500 Rooms</b>	<b>United States Resorts</b>
<b>1961</b>	<b>\$20.53</b>	<b>\$16.52</b>	<b>\$7.91</b>	<b>\$12.38</b>	<b>\$17.01</b>
<b>1962</b>	<b>21.47</b>	<b>17.75</b>	<b>8.01</b>	<b>11.98</b>	<b>17.13</b>
<b>1963</b>	<b>22.56</b>	<b>18.02</b>	<b>8.33</b>	<b>11.92</b>	<b>17.27</b>
<b>1964</b>	<b>21.55</b>	<b>18.46</b>	<b>8.31</b>	<b>11.83</b>	<b>17.66</b>

**Source: Mings, Robert C. “Puerto Rico And Tourism: The Struggle for Cultural Autonomy among Developing Nations: The Case of Puerto Rico and Its Tourist Industry.” Caribbean Quarterly, vol. 14, no. 3, University of the West Indies, 1968. at p.17**

<sup>345</sup> Mings, Robert C. at p.16

<sup>346</sup> Id.

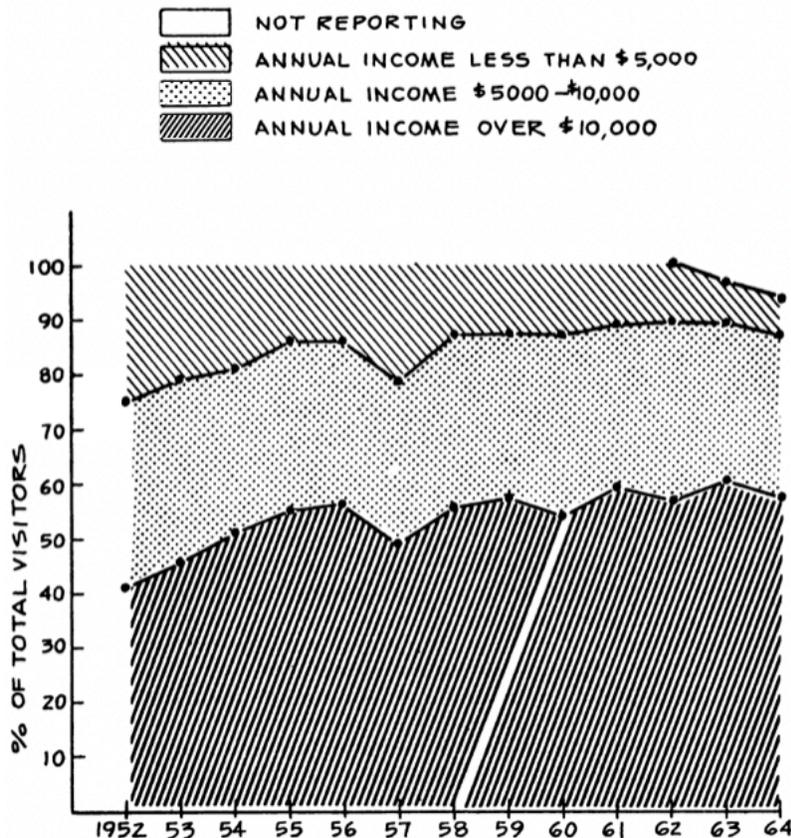
<sup>347</sup> Id.

<sup>348</sup> Id. at p.17

<sup>349</sup> Id.

Moreover, tourists with an annual income over \$10,000 (considered upper level) increased from 41 percent in 1952 to nearly 60 percent in 1964 of the yearly total number of tourists to PR. Inversely, however, tourists with an annual income less than \$5,000 (considered lower class) decreased from 25 percent in 1952 to about 12 percent in 1964 of the total annual number of tourists to PR (see Figure 16). The lack of moderate-priced tourist facilities which existed in 1964, and the increasing proportion of visitors from the upper-income levels in conjunction with the decrease of visitors with lower income levels, indicate the government's objective of providing accommodation for all income groups fell very short of its goal. The majority of visitors were from upper-income groups; therefore, any benefits that would have derived from the presence of more varied types of visitors were not obtained.

**Figure 16 Income Levels of Non-Resident Hotel Visitors**



Source: Mings, Robert C. "Puerto Rico And Tourism: The Struggle for Cultural Autonomy among Developing Nations: The Case of Puerto Rico and Its Tourist Industry." *Caribbean Quarterly*, vol. 14, no. 3, University of the West Indies, 1968. at p.19

It has to be said that this objective of developing a wide range of prices for PR tourism had been a government aim since the 50s but was only briefly stated again in the 1960s as tourism began

to increase. Thus, possibly signaling it was not high on the list of government objectives. Moreover, measuring the exact quantity of lower-cost facilities in PR becomes difficult due to lacking data on the issue. However, based on official economic reports by the PR government, we can observe if, indeed, the overall goal of providing more affordable tourist options was achieved in later years. As noted in the Economic Report to the Governor of 1985, the leading factor affecting the tourism industry in PR was the high prices associated with hotels, restaurants and, services offered to tourists. The report stated that by 1975 the average price for hotel rooms in PR was \$39.00, while in other countries like Mexico, Bahamas, and the US, the average cost per room was \$33.00, \$42.00, and \$29.00, respectively.<sup>350</sup> At the same time, the average price for hotel rooms in 1982-83 for PR (\$102.00 maximum) was found to be higher in PR than for other tourist hotels in the Caribbean (see table 8).<sup>351</sup>

**Table 8 Hotel Rates, Selected Destinations**

	Room Rates					Percent Change			
	1975	1981	1982	1983	1984	1981 1975	1982 1981	1983 1982	1984 1983
<b>Caribbean</b>	41	67	84	86	102	63.4	25.4	2.4	18.6
<b>San Juan, Puerto Rico</b>	39	67	82	95	110	71.8	22.4	15.9	15.8
<b>Montego Bay</b>	42	66	81	83	102	57.1	22.7	2.5	22.9
<b>Bahamas</b>	42	69	88	79	96	64.3	27.5	-10.2	21.5
<b>United States</b>	29	63	70	67	71	117.2	11.1	-4.3	6.0
<b>Honolulu</b>	28	58	63	64	71	107.1	8.6	1.6	10.9
<b>Hilo</b>	29	65	65	46	45	124.1	0.0	-29.2	-2.2
<b>Miami</b>	30	69	80	71	73	130.0	15.9	-11.3	2.8
<b>Mexico</b>	33	68	81	67	68	106.1	19.1	-17.3	1.5
<b>Alcapuco</b>	34	80	80	70	74	135.3	0.0	-12.5	5.7
<b>Cozumel</b>	46	59	78	65	52	28.3	32.2	-16.7	-20.0
<b>Puerto Vallarta</b>	32	58	88	62	62	81.3	51.7	-29.5	0.0
<b>Mazatlan</b>	20	40	51	44	45	100.0	27.5	-13.7	2.3
<b>Cancun</b>	—	80	103	84	84	—	28.8	-18.4	0.0
<b>Europe</b>	15	32	35	38	32	113.3	9.4	8.6	-15.8
<b>Marbella and Torremolinos</b>	20	36	36	37	33	80.0	0.0	2.8	-10.8
<b>Mallorca</b>	12	27	30	32	22	125.0	11.1	6.7	-31.3
<b>Niza</b>	18	50	61	67	72	177.8	22.0	9.8	7.5
<b>Dubrovnik</b>	13	32	36	39	41	146.2	12.5	8.3	5.1
<b>Total (average)</b>	28	55	63	59	63	96.4	14.5	-6.3	6.8

Source: Junta de Planificación de Puerto Rico, Informe al Gobernador, 1984-85. p.116

<sup>350</sup> Junta de Planificación de Puerto Rico, Informe al Gobernador, 1984-85. at p.114

<sup>351</sup> Id.

Furthermore, the Economic Report also acknowledged that one of the leading causes of PR tourism's high prices was associated with past trajectories favoring more expensive and luxurious projects. According to the report, PR's tourist activity seems to have been affected by the hasty development of tourism during the 50s and 60s, favoring international markets, mainly the North American market.<sup>352</sup> During this period, large luxury tourist hotels acquired huge importance in the Metropolitan area of San Juan and the Island's north coast, which meant that tourism developed confined to the limits of areas of the large hotels with minimal links to the rest of PR.<sup>353</sup> And since it was also very expensive luxury tourism, its market concentrated on the tourist population (mainly North Americans) with high incomes. Thus according to The Economic Report, it seemed that the overall objective of purposely negating entrance of "overly cheap" hotels and facilities produced a tourism sector that was relatively expensive compared to other destinations. It is then reasonable to argue that the government's drive to control the development of the tourism industry during its formative years in order to "safeguard PR culture" presents an explanation for why PR tourism has had limited growth and competitiveness relative to other tourist destinations.

Additionally, the Economic Report to the governor of 1985 classified the lack of coordination at the interagency level as a key obstacle hindering the tourism sector.<sup>354</sup> The report stated that: "responsibility for a program's functions was usually divided between several government agencies. This creates problems because it is not clear who is ultimately responsible, and one agency tends to relegate its responsibility over to another, thus making its work not as effective as it should be".<sup>355</sup> These institutional coordination efforts affecting PR tourism coincide with each party's support coalition's differing interests. The NPP saw tourism as an avenue for leveraging support from US business and foreign executives, while the PDP continued responding to local pressures around culture preservation and US colonization. Specifically, the rise to power of the NPP (statehood movement) within the early 70s saw a break in attitudes towards tourism within PR's government. Prior to the NPP occupying power, PR tourism was managed and influenced by PDP-led ideals of culture preservation and tight control over the industry. However, the pro-statehood NPP saw tourism as a key factor in promoting the growth of its pro-annexationist platform.<sup>356</sup> Such an approach largely differed from the "culture protectionist" approach the PDP had on tourism while in power. The NPP, through its discourses, argued that "statehood will also bring a tremendous boom to Puerto Rican tourism. Like business executives,

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<sup>352</sup> Id. at p.118

<sup>353</sup> Id.

<sup>354</sup> Id. at p.119

<sup>355</sup> Id.

<sup>356</sup> Toscano, Octavio Moreno. "El Turismo Como Factor Político En Las Relaciones Internacionales." *Foro Internacional*, vol. 12, no. 1 (45), 1971. at p.90

many tourists are leery about going somewhere that seems too “different.”<sup>357</sup> NPP officials argued that, with its excellent infrastructure and unique geography and culture, Puerto Rico could experience a similar boom in tourism as Hawaii did after becoming a state.<sup>358</sup>

Similarly, the NPP and its statehood supporters critiqued the PDP’s stance on culture, identity, and tourism as being overly “nationalistic” in nature.<sup>359</sup> Through their discourses, the NPP argued that “culture is not static, but rather culture progresses, and Puerto Rican culture today is a culture that came with roots in Spain and has already grown roots in the Anglo-Saxon culture.”<sup>360</sup> We can possibly expect that the differing approaches and attitudes towards the tourism sector also influenced the lack of institutional coordination described by the 1985 Economic Report. Furthermore, these dynamics within the government and its agencies/institutions might account for why support for the sector continued to be lacking after the 70s. Thus, it seems that the government’s drive to control the development of the tourism industry during its formative years in order to “safeguard PR culture” may have limited the growth and competitiveness of PR tourism relative to other tourist regions. At the same time, the rise in political division and subsequent differing approaches toward the tourism sector might account for why PR tourism has continued to perform poorly in subsequent years.

## 6. Conclusion section

Based on the discussions and data presented, it is reasonable to think there are numerous economic alternatives for PR to explore and develop to inject more economic growth and deal with its financial woes. However, a common limiting factor running through the economic sectors covered here is the Island's over-dependence on manufacturing and industry. It seems that the drive for industrialization throughout PR’s initial economic development stages has come at the cost of neglecting important economic activities—such as tourism, agriculture, and local business. In addition to the over-emphasis on industrialization, the Island's internal politics, in conjunction with political calculations thumping over economic concerns, have surely been a factor further limiting the competitiveness of the PR economy. Financial market changes worldwide, Caribbean transformations, and the Island's own financial crisis illustrate why PR strategies previously employed are no longer appropriate. Therefore, Puerto Rico will not be able to continue depending on financial incentives as the primary driving force of its economy. And cannot afford to continue being bogged down by internal politics.

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<sup>357</sup> Romero-Barceló, Carlos. “Puerto Rico, U.S.A.: The Case for Statehood.” *Foreign Affairs*, vol. 59, no. 1, Council on Foreign Relations, 1980. at p.80

<sup>358</sup> *Id.* at p.81

<sup>359</sup> Merrill, Dennis. at p.211

<sup>360</sup> *Id.*

Without question, tourism seems to be one of the more potentially promising economic activities for the Island, given its geography, and could present promising returns if given more importance.<sup>361</sup> Puerto Rico cannot avoid attracting tourism with its beautiful landscapes, beaches, and excellent climate. Tourism will undoubtedly generate employment and add to GDP and may do so well into the future. However, it is essential to mention that jobs generated by tourism are generally unskilled. Servers, kitchen staff, maids, and porters, in essence, the backbone of tourism, do not require high levels of formal training or specialization, while Puerto Rico is surrounded by other destinations offering similar shorelines but with much cheaper salaries.<sup>362</sup> For instance, for accommodations with nearly identical features and luxury, Santo Domingo's hotel rates are much cheaper than in PR. PR tourism can remain relevant by utilizing the country's cultural resources, lack of severe poverty, and various factors; however, to rival less wealthy Caribbean destinations, PR must match vacation rates equivalent to its Island counterparts.<sup>363</sup> In short, tourism can boost PR's economic development and provide a multitude of benefits. Nevertheless, relying on tourism as the driving force behind economic expansion may not produce the desired outcomes. Should tourism emerge as the main contributor to GDP, market pressure for reduction, not increase, in wages could follow.<sup>364</sup> Indeed, this would not be the enduring path toward achieving economic success.

Similar to tourism, PR's meddling within important economic sectors ended up creating more harm than good for the agricultural sector. Insufficient policies meant only to affect PR's sugar industry eventually led to the demise of PR's overall agricultural sector. PR's agriculture sector is relatively small in terms of GDP, where it only contributes 1 to 2 percent. However, there is potential for agriculture to increase in importance, at least in local terms. Specifically, given that nearly 85 percent of all foodstuff is imported, local agriculture could potentially be a more prominent source for local consumption if the government increases incentives and support for PR agriculture. Of course, the competitiveness of PR agriculture will surely be limited to both the Island's relatively small geographical area (8,870 square kilometers) and has to contend with the potentially disruptive effects of frequent natural disasters. This means that while PR agriculture has the potential for becoming a more significant economic activity, its economic potential will be far less than that of the tourism sector.

Lastly, PR's drive for industrialization focused on external capital meant that the Island's local business sector would receive less importance and support from the government. Specifically, the use of financial incentives targeted large multinational business activity and created an industry structure that was poorly aligned with providing opportunities for local businesses. While additionally, high public sector employment growth possibly hindered the development of a flourishing domestic business sector. The local business sector seems to have the largest

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<sup>361</sup> Jenkins, Glenn P., et al., at p.8

<sup>362</sup> Collins, Susan M., et al., editors. at p.71

<sup>363</sup> Id. at p.72

<sup>364</sup> Id.

obstacles of all the economic sectors covered. This is simply a function of PR's difficult regulatory environment, continued reliance on financial incentives, the continued growth of the public sector, and the ever-increasing presence of American businesses and enterprises—representing immense competitive obstacles for local businesses. Therefore, this study's main takeaway would be that Puerto Rico must diversify its economy by developing and strengthening economic sectors more closely related to its local economy—tourism, agriculture, and local business. Rather than, for instance, the dominance or substitution in the importance of any economic sector in particular. However, it remains unclear to what extent this will be possible, absent any substantial break or separation within the Island's inherent politicization of its economic governance. In many ways, the Island's greater challenge is constructing a shared vision for its future economic endeavors. More specifically, a vision for the future less constrained by past trajectories, internal political maneuvering, and short-term planning.

## **7. Research Limitations**

Various limitations regarding the methodology chosen have impacted the interpretations of the findings within this research. The chosen research model of Historical Institutionalism and its related path dependency approach has helped understand and frame this study's main focal point. Specifically, the chosen methodology presented the opportunity to observe why specific economic sectors in Puerto Rico might have been neglected and how that related to Puerto Rico's internal political dynamics. While additionally presented the opportunity to observe why such political dynamics were impacted by moments of profound change that influenced Puerto Rico's policy choices and economic governance. However, from the perspective of normative political theory and philosophy, our Historical Institutional model has provided much less explanatory power. In other words, while Historical Institutionalism allowed us to observe why PR managed the economy in a particular way, there are fewer answers regarding how PR's economy should have been managed.

One of the central points within this thesis has hinged around Puerto Rico's over-emphasis on industrialization through reliance on financial incentives and the ideological commitment to this sector. Historical Institutionalism has helped frame why Puerto Rico's leaders developed a strong commitment towards this sector and why such a commitment possibly affected the flourishing of other critical economic sectors—like tourism, agriculture, and local business. Regardless, our chosen research model is less aptly suited to construct alternative observations suggesting that less dependence on industrialization and manufacturing for Puerto Rico would have been a better choice conducive to more robust economic performance. More importantly, our research model does not allow the opportunity to observe if the over-dependence on industrialization is just a function of PR's colonial dependency or if it was possible to alternatively manage the economy in a way where such a dependency would have been less pronounced. In other words, Historical Institutionalism does not provide the adequate tools to suggest that giving more importance to any other economic sector would have addressed the problem of over-dependency that has characterized our case study on Puerto Rico.

According to the literature, tourism seems to be one of the more potentially profitable economic sectors for Puerto Rico due to the Island's geography and close connection with the US. The literature also implied that tourism could have replaced the importance of manufacturing because of previous pressures from the US to build up Puerto Rico tourism and potentially make it the Island's economic mainstay. Despite the possible benefits, our research model helped observe why tourism was purposely limited and how that related to internal political dynamics. Using our research model, however, it remains unclear what economic consequences might have occurred if PR had been less reliant on industrialization and given more importance to any other economic sector—including tourism. In particular, our research model provides much fewer tools for suggesting whether the same dependency built around industrialism and manufacturing would not have also developed around tourism. This observation is a significant limitation of our model because—similar to industrialization—tourism is a sector that heavily relies on external factors such as external capital, foreign presence, and foreign investments to prosper. Therefore our research model lacks the appropriate explanatory power to suggest that tourism—despite the possible competitive advantages Puerto Rico might have—was a sector that the Island should have pursued for improved economic development.

Moreover, our Historical Institutionalist model helped explain why Puerto Rico agriculture was perceived as unimportant and helped observe how the focus on industry substituted the importance of agriculture. Our model also explained why land reform responded to desires to limit economic dependence on the US and how it meant to provide more benefits for the local population—e.i., land distribution for the benefit of small farmers and the landless. However, it is much less evident through our research model whether continued attention toward PR agriculture would have generated the conditions necessary to limit economic dependency or improve working conditions for local farmers. In particular, it is unclear if the completion of land reform would have generated better conditions for local growers or if the improvement of long-term planning around PR agriculture would have helped meet the Island's food security needs.

Lastly, our research model also helped frame how the institutional focus on financial incentives as the driver for the Island's economy sustained a rent-seeking business culture affecting the competitiveness of the local business class. Regardless, our theoretical model is limited in providing tools to suggest that less dependence on manufacturing and financial incentives would have created a more beneficial business environment for local enterprises and entrepreneurs. Therefore, our research model has helped address the main objective of this thesis by answering why Puerto Rico's economy was managed in a way that seemed antagonistic toward long-term development. Nonetheless, Historical Institutionalism does not allow us to go one step further and construct interpretations of how Puerto Rico's economy ought to have been managed to generate conditions that would have been conducive to sustained economic prosperity.

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